ENTERPRISE ZONES: THE CONCEPT

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SUBCOMMITTEE ON ECONOMIC GOALS AND INTERGOVERNMENTAL POLICY

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MONDAY, JANUARY 11, 1982

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMIC GOALS AND
INTERGOVERNMENTAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:18 a.m., in the Richard B. Russell Building, Atlanta, Ga., Hon. Mack Mattingly (member of the subcommittee) presiding.

Present: Senator Mattingly and Representative Gingrich.

Also present: William Keyes, professional staff member.

OPENING STATEMENT OF SENATOR MATTINGLY, PRESIDING

Senator MATTINGLY. The subcommittee will come to order.

I'm pleased to chair the second of a series of Joint Economic Committee hearings on the Urban Enterprise Zone concept.

We have a very distinguished and qualified panel, and I look forward to the testimony on this important concept, one that is designed to revitalize the ailing inner city and ultimately and most importantly create jobs.

At the outset, I would like to thank Congressman Gingrich for taking the time out of his very busy schedule to participate and assist me in conducting these hearings. Both Congressman Gingrich and I are cosponsors of the legislation pending in the U.S. Congress supporting the Urban Enterprise Zone concept.

We had invited Governor Busbee, Congressman Fowler, in whose district the hearing is being held, and also Mayor Young to participate in this hearing. Unfortunately, because of conflicts in their schedules, they were unable to be here.

Urban decay is not a new problem. The vast array of the government spending programs to revitalize the inner core areas, including Urban Renewal in the 1950's, the Model Cities in the 1960's, and Urban Development Action Grants most recently, that will reflect the public concern over the crisis in blighted areas in American cities. Despite the billions of dollars appropriated for combating crime, poverty, and homelessness in distressed urban areas, the problems remain unsolved.

Representative Jack Kemp, Republican, New York, who sponsored, along with Representative Robert Garcia, Democrat, New York, a Federal Urban Enterprise Zone bill, summed up the problem this way in testimony before the House Committee on Banking, Finance, and Urban Affairs, "the social welfare expenditures have more than

quadrupled since 1965. There are more poor people, both absolutely and relatively, in American central cities today than there were two decades ago; and the unemployment rate is well over twice the national average; while for minority use in inner city, the unemployment rate is near 50 percent."

Recognizing the failure of past public efforts to combat urban decay, many now believe that the key to revitalizing urban areas lies in improving the opportunities for commercial expansion in distressed areas. Such is the goal of the Urban Enterprise Zone concept, by offering both tax incentives and regulatory relief within designated zones plagued by depressed economic activity.

The Urban Enterprise Zone concept addresses two inter-related affects of urban decay. The Zone seeks to alleviate the financial burdens to big cities caused by the out-migration of businesses and homeowners from core areas. Obviously, out-migration lowers the tax base; however, cities must continue to provide the services to areas which contribute ever decreasing revenues to municipal coffers. Raising the property taxes in an effort to make up for such revenue losses compounds the problems by causing still more businesses and homeowners to relocate. Faced with this vicious cycle of declining revenues and increased demands for services, such as increased demands for police protection, social welfare programs, and other expenditures, cities are forced into a "financial corner." In addition to the financial burdens associated with urban decay, there is also the human tragedy of unemployment and poverty which accompanies the declines in economic activity in the inner city.

Urban Enterprise Zone seeks to bring prosperity and hope back to the core areas by creating an atmosphere conducive to investment and business activity. Advocates of Urban Enterprise Zones claim, and I firmly believe, that the implementation would bring jobs and dignity back to the inhabitants of blighted urban areas. By relaxation of government constraints on commerce in depressed areas, Urban Enterprise Zones will encourage and lure business investments back into the inner city.

I would like to stress, without qualification, that the concept of Urban Enterprise Zone is in no way to be considered an alternative to current urban programs. The Urban Enterprise Zone concept will complement and work hand in hand with existing urban programs. Legislation creating Urban Enterprise Zones has been introduced in Great Britain, the U.S. Congress, and in State legislatures across the Nation. The contents of Urban Enterprise Zone measures, whose general goal is to retard further urban decay by enticing business investments and the creation of jobs in designated zones, range from tax credits for zone employers and zone employees, elimination of capital gain taxation, reduction of taxation of a zone income, changes in accounting methods for zone businesses, extension of the net operating loss carryover and regulatory relief. While these measures differ in approach, they generally agree on three issues: First, major public sector programs to combat urban decay have not only proved unsuccessful, they may have led to even worse deterioration. Second, small businesses must play a major role in inner city recovery. But core entrepreneurs in the past have been hampered by the Government and

the reluctance of commercial lenders to extend credit to them. While restricted in the past by these impediments, great numbers of businessmen can be expected to seek special tax concessions to be offered in the Urban Enterprise Zone. The small businesses they form will be essential, for small businesses generate 66 percent of all new jobs created nationally. Third, Federal, State, and local governments, in conjunction with the private sector, must be involved in the planning and implementation in order to guarantee success in such a program.

The Urban Enterprise Zone concept has drawn support from a wide range of individuals and organizations. Fiscal conservatives applaud the approach because it is not just another bureaucratic program designed to throw tax dollars at the inner cities. The idea is fundamentally antibureaucratic, for it is designed to eliminate guidelines and regulations, rather than creating them.

The Urban Enterprise Zone concept is also attractive to those who have advocated increased Government spending for central city projects, most of whom have grown frustrated and disillusioned by the ineffectiveness of large Government projects.

The Urban Enterprise Zone concept, in contrast, seeks to stimulate local projects and commercial risk-taking by removing financial and regulatory obstacles. It aims to provide a climate that will make it more likely that community initiatives and businesses will succeed. In other words, the Urban Enterprise Zone concept is attractive to a wide range of individuals and organizations, because its approach is neither conservative nor liberal, but overwhelmingly pragmatic.

While a specific proposal has yet to be submitted to the Congress, the administrative under President Reagan has endorsed the principals in the Urban Enterprise Zone concept. We, therefore, I believe, can expect consideration of the concept during the second session of this 97th Congress, and, I feel, its early passage.

Congressman Gingrich, please proceed as you wish.

STATEMENT OF HON. NEWT GINGRICH, A U.S. REPRESENTATIVE IN CONGRESS FROM THE SIXTH CONGRESSIONAL DISTRICT OF THE STATE OF GEORGIA

Representative GINGRICH. First of all, I thank Senator Mattingly for allowing me to come here today to listen to a number of your comments on Urban Enterprise Zones, and also to ask some questions and try to develop some public awareness of this important topic.

I want to take a moment to recognize Toni O'Neal, who is here in the audience. Her work on my staff for 2 years played a major role in educating me on a number of the issues we're going to be talking about today.

A generation of good intentions has led to a cancer at the heart of our democracy. Decaying neighborhoods, skyrocketing crime, leading to avenues of fear, ineffective school systems, and musclebound public bureaucracies that can't adapt and change with changing city populations and tax structures have crippled the large central cities of this country. Hong Kong, Taiwan, and Singapore prove that resource poor areas can be rich in human endeavor, in wealth, and in success.

Atlanta is the perfect place to hold this hearing. We can learn how an area that is fairly small, without particular advantages in oil or gas or coal or iron, can take its human resources, and through hard work and enterprise can use those resources to generate wealth, change, and social improvement.

It is an appropriate week to hold these hearings. Frankly, I think it's a tragedy that the Martin Luther King Center for Social Change isn't hosting them, because real change in the central city and real change in the black community will come only with a fundamental change in the search for ideas.

For a generation, inner city leaders have focused on three arguments for improving the lot of their clients, their supporters, and their constituents. The three arguments, essentially, are: One, racism holds down the inner city community, two, there is a moral imperative for shifting resources from the middle class to the poor, three, bigger and bigger government bureaucracies will solve the problems.

Racism, in fact, was the key problem prior to 1964–65. There is no way for anyone, liberal or conservative, to deny the fact that racism has been an integral part of American life; that segregation did, in fact, hold down the black community; and that it's a crippling wound from which we will recover only over several generations.

The second argument, that shifting resources from the middle class to the poor will help either the middle class or the poor, has primarily led the middle class to flee the cities, has not particularly enriched the poor, and has probably taught both sides to distrust each other in the long run, and in the long run is not a solution.

In this decade, given every political indicator that we have, any leader of the inner city who bases his program for success on his ability to take money away from the middle class and to transfer it to the poor is essentially leading those who are poor down a blind alley of frustration and alienation.

Third, bigger and bigger government bureaucracies have increased the range of problems. I remember well a hearing that we held in this building under Congressman Levitas' leadership last year on the Clayton plant and the sewerage treatment problems of the city of Atlanta. We engaged in a circus, which I'd be glad to share the text of with anybody who'd like to look at it, as Atlanta employees tried to explain the bureaucracy by which they now try to run the city. I am suggesting that public employee unions and the central bureaucracies of large cities have now crippled the very institutions they attempt to serve.

Let me be even more explicit. There is a very grave danger that, 20 years from now, Koreans, Hispanics, and even the Vietnamese boat people, will have surpassed the average income of the black community in this country.

There is a very real danger that we'll go through another generation of change, but that change will not affect the central cities, the key community which must be integrated into American life, or the productivity growth of real resource development.

And the most important of all resources that must be developed is the human resource, the ability to go out, to start new businesses, to create new jobs, to develop new opportunities for your neighborhoods, your friends, and your children.

In closing, let me say that the real challenge to the leadership of the Atlanta community, and the real challenge to the Martin Luther King Center for Social Changes, is to create a new framework, a new set of arguments, a new set of theories, a new set of approaches.

While there is much yet to be done to make the Enterprise Zone idea workable and worthwhile, we are at least moving in the direction of freeing up minority business men and women, of freeing up the minority community, of opening up a new era of growth.

If the Atlanta black community could achieve in the next decade the growth rate of Singapore, that alone would do more to liberate black America than every speech that will be made in the next generation by political leaders.

Those kinds of targets are real; those kinds of targets are possible; and it is with great regret that I note the absence of probably the most important single leader in this city in terms of addressing these issues. It's important, vitally important, that the community look at new solutions and not simply continue the empty rhetoric and accusations of the last generation.

I thank the Senator for allowing me to be here.

Senator MATTINGLY. Thank you, Congressman.

Just before we call up the first panel, I'd like to say, agreeing with Congressman Gingrich, that we create a lot of poverty traps in our country; and the legislation that is being proposed, both in the House, which has already been introduced, and the Senate, will now be subject to changes that we may want to bring forth; and that's what this hearing is also all about. Any comments that may come forth that will make this a better piece of legislation, this is why we want your testimony today; and that not only are we holding this hearing in Atlanta, but it is applicable to other cities in Georgia; and with that, I would like to call up the first panel: Mayor George Israel from Macon, State Representative Calvin Smyre, Mayor Ed McIntyre from Augusta, City Councilman Richard Guthman from Atlanta. And I think that there are two that are not here at this time, but will be invited to testify later when they join us. Also, Dan Sweat, I understand, has to leave early, so you're invited to join this panel at the same time.

Mayor Israel, since I see that you're No. 1 on my list, unless—Dan Sweat, do you have to leave right away?

Mr. SWEAT. No, sir.

STATEMENT OF HON. GEORGE M. ISRAEL III, MAYOR, MACON, GA.

Mayor ISRAEL. Senator Mattingly and Congressman Gingrich, as a prelude to my statement, I'd like to lead off this by first thanking you for your investment of time, your investment of expense and creativity, emotional involvement, and certainly the inconvenience, in trying to look at problems that do plague our cities, and possible solutions to our problems. To that level of interest, I again want to reiterate how much I appreciate your attention to this very serious problem that not only plagues cities in Georgia, but cities across this Nation.

I would first like to make a few general points. I think that we can look at in the context of the history of civilization.

Cities during the history of the development of civilization have played a very crucial role in that development of civilization and tech-

nology itself. If we look at the Neolithic period, we have evidence of man's congregating within cities for protection from without, to barter and trade the agricultural fruits of their society, to worship, and even to socialize.

We see an important change that occurs around 3500 B.C. at the close of the Neolithic period. The world population at that time was only approximately 10 million people. Cities began to appear. The Tigris-Euphrates Valley, along the Nile, the Indus Valley. And I think we can see certain needs that developed within those cities and within those societies and see a very innovative, creative way of dealing with problems. Of course, at that time, being an agricultural-based society worldwide, there was a need for storehouses to meet the need of famine; and with storehouses came the need for records and writing; and we see that that challenge was met during that era. We also see that with the need for safety as it grew and cities grew into city-states, that armies needed to be maintained and government developed. We see that armies had to be paid and government had to be paid and taxes were developed. Order was needed in manning those cities, legislating. They executed those laws and then judged their fellow man.

Around A.D. 1650 we see that the population had grown to 50 times the Neolithic population of the world, with some 500,000,000. Many of the populations were concentrated in the great cities of Europe, Asia Minor, Northern Africa, and Asia. Of course, these concentrations of people brought on additional problems: pestilence and plague; and for the first time we see modern medicine and science developed.

But cities continued to grow and expand, and we find that even in the New World small towns of New York, Chicago, Philadelphia, Boston, Savannah, and Charleston began to develop into what we know today as cities; and today the cities of America, even to include the Atlantas and the Macons and even the Villa Ricas, have tremendous need. These cities have provided the infrastructure for an industrialized society that has won two major world wars, has given us a standard of living unprecedented in the history of mankind; industry that has developed a tremendous degree of technology. Cities have become great centers of learning. Cities have become points of cultural and social exchange, where our past, our present, and our future all merge. But we find ourselves at a very critical point in the history of man, because in the 1960's and 1970's we saw a trend of increasing population in the cities, increasing tax base, increasing opportunities suddenly reverse.

When you look at this in the context of the history of mankind, I think we have to take note of its importance. There are a number of factors, and I think we have to look at those problems before we ever come up with any solution. One, of course, was the automobile. In the 1920's there were only 8 million automobiles in this country. We find in 1965 it had grown to 75 million. The automobile has brought with it special problems. We find that, today, with many of the aid packages, we are attempting to cope with those problems.

We also find that State government has not, perhaps, been as responsive to the needs of cities as, perhaps, it could have been.

Serving as mayor of Macon, having also served as a member of the President-elect's Urban Advisory Task Force, and as a board member

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of the National League of Cities, I've had the opportunity to work with local economic development problems that exist in my city, and at the same time to understand how similar these problems are to many other cities in this country. When I travel to the Northeast, I am often surprised that people think of the Sun Belt as being Boom City, U.S.A., with rapid expansion of jobs occurring, with new private investment occurring in every town every day. To a certain extent, I think cities like Macon have capitalized on growth in the Sun Belt. We in Macon are trying to take the greatest advantage of all of our assets in developing new industry to expand our local economy; and I think the same can be said for the five major cities in Georgia. But within the cities, and certainly within mine, there are pockets of poverty that seem immune to some of the conventional economic development efforts. These pockets are not small.

When I took office in December of 1979, I was confronted with some of the problems that seemed too massive to ever begin to solve. A fourth of all of our housing units in Macon are substandard. Many of them are the shoddiest construction of the 1920's and the 1930's. Many of them are even older. If we put a price tag on attempting to reverse this trend of substandard housing, to halt it, and to reverse it, it would cost $90 million. Obviously, in this decade, we cannot hope to expect some $90 million from the Federal Government; and it's obvious that, locally, we will not be able to come up with some $90 million from our conventional tax sources.

If we look at the entire central area of our city, with minor exceptions, it was a blighted experience in disinvestment. The tax base was badly eroding. Unemployment in the inner city was nearly 20 percent. Among minority youth, it approached even 25 percent. The major new unemployees were located in our suburban areas, inaccessible to those neighborhoods that needed the jobs.

Since 1979, we in Macon have been fortunate to have started back on the road to recovery in the central business district. Under an aggressive revitalization program, some $31 million in new private investment has been committed in the last 2 years. Some of it has already been completed. Approximately 1,000 new permanent private-sector jobs are being added to the local economy as a result of this reinvestment in the central business district.

I should point out that this new investment would not have taken place without the involvement of the urban development action grant program, a program that I and other mayors have strongly supported for continued funding.

In Macon, we are hoping that the end progress revival of the central business district will somehow, some day, spread to those nearby distressed neighborhoods; but this cannot happen without some special new business environment that might attract new businesses to abandon areas that now are considered far from being prime business locations. These businesses might be new startup operations which are the inherited sources of a significant amount of a city's new jobs, but which are typically not candidates for the structuring of individual UDAG deals. This is why I'm so interested in the Enterprise Zoning proposals that have surfaced in the past 18 months. I've given the concept a lot of thought. I have corresponded with Congressman

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Kemp, sharing my ideas. I have asked our community development planners to take a look at specific areas of Macon that might be most appropriate for an Enterprise Zone designation, both from the standpoint of need, and also from the standpoint of ability to succeed. From this, we have identified a specific area, and we are now in the process of developing an overall economic development strategy for that area, assuming, of course, that the Federal Enterprise Zone program is enacted.

While our local Enterprise Zone planning has not gone beyond the conceptual stage, we are looking at some exciting local features that might be linked with Federal tax and regulatory incentives, to bring new job opportunities and other social benefits into that area. We are looking into excess publicly owned land and buildings in the proposed zone, to be given over to a specally created Zone development corporation, partially funded by private business community, for the leasing of new enterprises on favorable terms. The leasing income would then be used to build a source of seed capital for additional business development assistance. We are also looking into the development of a special loan pool program, similar to that that we have used to put together our Cherry Street UDAG project. This will provide for financing favorable rates, to finance jobs, generating start-up and expansion by private firms in the zone. The pooling of loan funds from several local banks and the spreading of risk over a number of zone businesses, plus a partial city contractual guarantee, would allow access to the debt capital for some businesses that might not otherwise be able to secure financing. We are also looking into a specially created nonprofit housing corporation, funded initially by Macon's largest private corporation, that will be charged with the rehabilitation and replacement of a significant portion of the substandard housing within the zone, in such a way that makes standard housing affordable to the existing zone residents. We are also looking into simplified zoning, permitting, and licensing regulations, and procedures in Zone and business recruitment efforts.

I feel confident that Macon could be an early success story for Enterprise Zoning, provided that the Federal legislation is enacted, or provides sufficiently attractive incentives. For example, employment tax credits for hiring CETA eligible persons must be of a significant magnitude to do just that. It is my feeling, and the feeling of others in the League of Cities, that a 5-percent credit is certainly not enough.

Since this is not a hearing on any specific proposal, I will not dwell on any specific provision at this time, other than, of course, to point out that many of Georgia's constitution and laws are somewhat antiquated, and many of the modern innovative financing and tax incentives that are available in other locations are not available in the State of Georgia. I would urge both U.S. Representatives of this State to guard against those types of legislation and those types of prohibitions against cities giving special tax incentives.

In summary, I would like to urge the rapid adoption of the Federal Enterprise Zone program; but at the same time, I would urge that my city and others have an adequate opportunity to study and comment on specific legislation prior to the final action by the Congress. I would also be remiss if I did not also urge the State of Georgia

to closely look at its policies toward municipalities and toward our urban areas, and to look at the challenge that faces us and faces our State in how municipalities and urban areas can play an important role in meeting that challenge.

I also want to emphasize that I do not see the Enterprise Zoning as a replacement for the other significant forms of community and economic development systems, such as the Community Development Block Grant program, or the Urban Development Action Grant, which now play a critical role in Macon and in other communities that share our problems.

I again want to thank you for the opportunity to be heard on this matter. It's my feeling that a close cooperation in a trilateral partnership between the Federal and local government and the private sector can help us solve many problems that face our cities. Thank you.

Senator MATTINGLY. Thank you, mayor.

Before we get to the questions for this panel, I'll go ahead and let Mr. Guthman and Mr. Sweat make your opening comments. If you would like to condense part of them, it'll be fine, so we can get to the question and answer. I wasn't going to condense mine, but you can condense yours. I'm kidding.

Go ahead, Mr. Guthman, as you choose.

STATEMENT OF RICHARD GUTHMAN, MEMBER, ATLANTA CITY COUNCIL, ATLANTA, GA.

Mr. GUTHMAN. Senator Mattingly and Congressman Gingrich, thank you very much for coming to Atlanta.

My name is Richard Guthman. I'm a businessman and beginning my ninth year as a member of the Atlanta City Council; and in that regard, along with my colleague who is here, council member Rob Pitts, let me welcome you to our city. We recognize that we are not the executive branch, but we feel that, as members of the legislative branch, we do affect policy, and we can also welcome you here.

For the past year, I have been the chairman of the Atlanta City Council's Community Development Committee and a member of the board of the Atlanta Economic Development Corporation, which is a public private corporation here in Atlanta designed to promote economic development. For many years I've been concerned with the development of business within the city. To this end, I've also served on the subcommittee which was established by the council to study the Enterprise Zone concept. We met from November through the end of December to discuss the concept and to study possible alternative incentives for business development within an Enterprise Zone.

I should first point out to you that the city council of Atlanta has not taken a position on any of the proposal for Enterprise Zones currently before or being considered by the Congress. The comments which I am about to make, therefore, do not reflect the policy of the whole council, but are a result of the Enterprise Zone Subcommittee only.

The Enterprise Zone Subcommittee endorsed the general concept of the Enterprise Zone to bring business back to the city and provide jobs for CETA-eligible persons. One of the major difficulties faced by the city of Atlanta currently is the large number of unemployed black

males under the age of 25. According to all studies available, this unemployment segment of the population lacks a high school education and marketable skills. Illiteracy also plays a great role, since many of these people are unable to fill out a simple job application for even low skill jobs. Another difficulty is that the few companies which provided low skill jobs which could be filled by those with marginal training are moving out of the city, while those companies which are remaining or moving in have highly technological professional and secretarial skill requirements. In other words, the city of Atlanta finds itself less and less able to provide jobs for those unemployed who may be only semi-or-unskilled workers.

The concept of the Enterprise Zone attracting businesses to provide jobs, particularly blue collar ones, is, therefore, very attractive to the city of Atlanta. Federal programs which have been available for cities in the past have not alleviated, much less solved, the problem. Our resources will even be further limited with cuts in such Federal programs as CETA, EDA, and CDBG.

The Enterprise Zone concept has been heralded as an answer to the inner city unemployment problem which cities like Atlanta face. However, since currently only a limited number of Enterprise Zones are proposed nationwide, and all cities which applied for an Enterprise Zone designation will be so named. In the meanwhile cities will be recruiting businesses and retaining businesses for their own incentive, as well as any incentive which the State governments initiate in hopes that they will receive an Enterprise Zone designation.

If the Enterprise Zone is a good concept, why limit the number of Enterprise Zones? Let me pose a series of questions to you:

Can the simple advantages offered by the city for Enterprise Zones counterbalance the concerns of an untrained labor force, crime, high insurance rates, and unionization? My opinion is, no, because there are many tax advantages already offered to all businesses, regardless of where they locate, by the Economic Recovery Act of 1981; and, furthermore, as expectations of business are raised by the advantages of additional Federal incentives by the present administration and Congress, and then the city does not have these Federal incentives to offer, will business still be willing to return to distressed areas?

Here is what I perceive may happen: Cities which do not have an Enterprise Zone designation may actually have a more difficult time recruiting businesses, since these companies will be aware that additional Federal incentives are available in other cities. Businesses thus may well take a wait-and-see attitude, leaving the area along entirely.

Another major concern for the council subcommittee was the apparent lack of any sort of control to prevent the distressed area from becoming a mere tax haven for capital intensive companies, with little benefit for low-income individuals. It is not realistic to expect that any Enterprise Zone would attract only labor-intensive business. A mixture of businesses having different kinds of labor needs is, in fact, desirable from a city-wide perspective.

Again, let me pose a question: What steps are being proposed to insure that the Enterprise Zone will combine tax saving incentives with appropriate business mix and not become a mere tax haven to cut the corporate tax bill? The currently proposed tax incentives favor

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businesses which have large profits and, therefore, large taxes. Small or medium-size businesses which also provide many new jobs reap the benefits from these incentives only if they make a profit. The legislation must address the needs of small and medium-size businesses and the roles such as diversity of business types would have in the economic revitalization of Enterprise Zones.

It has been suggested that companies be allowed to sell off tax credits or losses to companies which can use them. These alternatives for small and medium-size businesses need exploration.

The key to economic revitalization appears to lie in the successful training of the labor force. Training programs have not, for a variety of reasons, always worked in the past. But training is still needed within the inner city to give the unemployed and underemployed marketable skills. This training should include specific business skills, as well as developing a positive attitude for the jobs for which training is being given. For example, training for a secretary could include training in Business English and job readiness, in addition to typing and shorthand. Improved incentives must be offered to businesses to allow them to hire untrained persons and train them. This is especially true for small- and medium-sized businesses which can least afford the expense of hiring untrained individuals. Conversely, small- and medium-size businesses have probably the best opportunity to create new jobs for such individuals. Businesses here in Atlanta constantly speak of skilled labor shortages, despite the number of unemployed.

The mismatch of labor and jobs is critical within our city. Although there is a large number of unemployed who lack a high school education and marketable skills, there has been job growth oriented to those with technical or professional job skills. The trend of companies to switch from labor to capital intensive automation exacerbates the problem.

There are now more and more urban unemployed to compete for the few and fewer semiskilled or unskilled jobs. Private industry must be involved in the training and defining what jobs will be needed in the future. A public-private partnership is paramount if essential job training is to be matched with individuals needing the training.

A further concern of the subcommittee was the potential for redtape which might be required for job training and tax incentives. Professional bureaucrats and the growing new class of Government consultants encourage this paperwork. However, this would do nothing more than further burden the small- and medium-size business person with unneeded expense and limit the program to large corporations which can afford the expense of hiring paperwork interpreters. Some examples of this occurred in the title VI CETA and the urban renewal programs. In both, additional Federal paperwork and regulations actually discouraged private enterprise from accomplishing the goals of the programs. In the case of CETA, it discourages private enterprise from hiring and training persons. In the case of urban renewal, it discourages private enterprise from buying and redeveloping in distressed areas. When regulations are made complex and very specific, they do not allow for specific differences in cities' problems.

Jean Jacques Rosseau, the great French philosopher, once said, and I quote: "Good laws lead to the making of better ones; bad ones bring

about worse." I believe that the Enterprise Zone legislation has the potential of becoming a good law. Its whole point, as I understand it, is to help make the private enterprise system work, not just for the few, but for all. I urge the subcommittee to consider carefully small- and medium-size business needs, as well as large business needs, as part of an overall strategy to bring economic development to a distressed area. More emphasis should be placed on incentives from which small- and medium-size companies can benefit.

Particularly, legislation needs to emphasize incentives related to training, either directly or indirectly, since the quality of the labor force is a key factor in business site selection. The regulation and paperwork should be minimal. For example, the documentation for hiring a CETA-eligible person might be done simply through a certificate issued by the city and attached to the business' tax form. Moreover, these regulations should be kept flexible to allow for differences between conditions in New York City, for example, and Atlanta. The Federal regulations should stress program goals, and local government should stress how these goals should be specifically related.

Finally, if the Enterprise Zone concept is a good one, and I believe it is, then the number of zones should not be limited as to number. Instead of limiting the actual number of zones, the legislation should limit the area of the zones to, say, no more than 5 to 10 percent of the land area of the distressed municipality.

Right now there are many who are skeptical the Enterprise Zone concept can work. As I said, I believe it can. I know that the President and the Senate and Congress also believe that it can. Thus, it seems to me that those of us who are so committed have a duty to make a good law better, accepting constructive criticism where it is warranted.

I hope that, from my perspective as a city councilman in one of the Nation's major cities, I have contributed to that process. Thank you again for inviting me, and thank you for being here.

Senator MATTINGLY. Thank you, Mr. Guthman.

[The prepared statement of Mr. Guthman follows:]

Prepared Statement of Richard Guthman

Good morning. My name is Richard Guthman. I am a businessman and am beginning my ninth year as a member of the the Atlanta City Council, Atlanta, Georgia. For the past year I have been the Chairman of the Council's Community Development Committee and a member of the Board of Atlanta Economic Development Corporation and for many years have been concerned with the development of business within the City. To this end I also served on the subcommittee which was established by the council to study the Enterprise Zone concept. We met from November through the end of December to discuss the concept and to study possible alternative incentives for business development within an Enterprise Zone.

I should first point out to you that the City Council of Atlanta has not taken a position on any of the proposals for Enterprise Zones currently before or being considered by the Congress. The comments which I am about to make therefore do not reflect the policy of the whole council, but are a result of the Enterprise Zone subcommittee study. The Enterprise Zone subcommittee endorsed the general concept of the Enterprise Zone to bring business back to the City and provide jobs for CETA eligible persons.

One of the major difficulties faced by the City of Atlanta currently is the large number of unemployed black males under the age of 25. According to all studies available, this unemployed segment of the population lacks a high school education and marketable skills. Illiteracy also plays a great role, since many of these people are unable to fill out a simple job application for even low skilled jobs. Another difficulty is that the few companies which provided low skill jobs that could be filled by those with marginal training are moving out of the city, while those companies which are remaining or moving here have high

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technological, professional and secretarial skill requirements. In other words, the City of Atlanta finds itself less and less able to provide jobs for those unemployed who may be only semi- or unskilled workers.

The concept of the Enterprise Zone attracting businesses to provide jobs, particularly blue collars ones, is therefore very attractive to the City of Atlanta. The Federal programs which have been available to cities in the past have not alleviated much less solved the problem. Our resources will be even further limited with cuts in such Federal programs as CETA, EDA and CDBG.

The Enterprise Zone concept has been heralded as an answer to the inner-city unemployment problem which cities like Atlanta face; however, since currently only a limited number of Enterprise Zones are proposed nationwide, not all cities which apply for an Enterprise Zone designation will be so named. In the mean while, cities will be recruiting businesses and retaining businesses with their own incentives, as well as any incentives which the state governments initiate, in hopes that they will receive an Enterprise Zone designation. If the Enterprise Zone is a good concept, why limit the number of Enterprise Zones?

Let me pose a series of questions to you: Can the simple advantages offered by a city for Enterprise Zones counterbalance the concern of an untrained labor force, crime, high insurance rates, and unionization? My opinion is "no", because there are many tax advantges already offered to all businesses, regardless of where they locate, by the Economic Recovery Act of 1981. Futhermore, if expectations of business are raised about the advantages of additional Federal incentives by the press, administration, and Congress, and then the city does not have these Federal incentives to offer, will business still be willing to return to the distressed area? Here is what I perceive may happen. Cities which do not have an Enterprise Zone designation may actually have a more

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difficult time recruiting businesses, since these companies will be aware that additional Federal incentives are available in other cities. Businesses thus may well take a "wait and see attitude" leaving the area alone entirely.

Another major concern for the Council subcommittee was the apparent lack of any sort of control to prevent the distressed area from becoming a mere tax haven for capital intensive companies with little benefit for low income individuals. It is not realistic to expect that any Enterprise Zone would attract only labor intensive businesses. A mixture of businesses having different types of labor needs is in fact desirable from a citywide perspective. Again, let me pose a question to you. What steps are being proposed to ensure that the Enterprise Zone will combine tax saving incentives with appropriate business mix and not become a mere tax haven to cut the corporate tax bill? The currently proposed tax incentives favor businesses which have large profits, and therefore large taxes. Small and medium sized businesses which also provide many new jobs reap the benefits from these incentives only if they make a profit. The legislation must address the needs of small and medium sized businesses and the role such a diversity of business types would have in the economic revitalization of Enterprise Zones. It has been suggested that companies be allowed to sell off tax credits or losses to companies which can use them. These alternatives for small and medium size businesses need exploration.

The key to economic revitalization appears to lie in the successful training of the labor force. Training programs have not, for a variety of reasons, always worked in the past. But training is still needed within the inner city to give the unemployed and underemployed marketable skills. This training should include specific business skills as well as developing a positive attitude toward the job for which training is being given. For example,

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training for a secretary could include training in Business English and job readiness in addition to typing and shorthand. Improved incentives must be offered to businesses to allow them to hire untrained persons and train them. This is especially true for small and medium sized businesses which can least afford the expense of hiring untrained individuals. Conversely small and medium sized business have probably the best opportunity to create a new job for such an individual. Businesses here in Atlanta constantly speak of skilled labor shortages, despite the number of unemployed.

The mismatch of labor and jobs is critical within our city. Although there is a large number of unemployed, who lack a high school education and marketable skills, there has been job growth oriented toward those with technical or professional job skills. The trend of companies to switch from labor to capital intensive automation exacerbates the problem. There are more and more urban unemployed to compete for the few and fewer semi- or unskilled jobs. Private industry must be more involved in the training and defining what jobs will be needed in the future. A public-private partnership is paramount if essential job training is to be matched with individuals needing the training.

A further concern of the subcommittee was the potential for "red tape" which might be required for job training and tax incentives. Professional bureaucrats and the growing new class of "government consultants" encourage this paperwork; however, this will do nothing more than further burden the small and medium sized businessperson with unneeded expense and limit the program to large corporations which can afford the expense of hiring "paperwork interpreters". Some examples of this occurred in the Title VI CETA and the urban renewal programs. In both, additional Federal paperwork and regulations actually discouraged private enterprise from accomplishing the goals of the programs. In

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the case of CETA, it discoveraged private enterprise from hiring and training persons; in the case of urban renewal, it discourages private enterprise from buying and redeveloping in distressed areas. When regulations are made complex and very specific, they do not allow for specific differences in cities' problems.

Jean Jacques Rousseau once said: "Good laws lead to the making of better ones; bad ones bring about worse." I believe that the Enterprise Zone legislation has the potential of becoming a good law. Its whole point, as I understand it, is to help make the private enterprise system work--not just for the few, but for all. I urge the subcommittee to consider carefully small and medium sized business needs as well as large business needs as part of an overall strategy to bring economic development to a distressed area. More emphasis should be placed on incentives from which small and medium sized companies can benefit.

In particular, the legislation needs to emphasize incentives related to training (either directly or indirectly) since the quality of the labor force is a key factor in business site selection. The regulation and paperwork should be minimal. For example, the documantation for hiring a CETA eligible person might be done simply through a certificate issued by the city and attached to the business's tax form. Morever, these regulations should be kept flexible to allow for the differences between conditions in New York City, for example, and Atlanta, Georgia. The Federal regulations should stress program goals and local government should stress how these goals should be specifically related.

Finally, if the Enterprise Zone concept is a good one--and I believe it is--then the number of Zones should not be limited as to number. Instead of limiting the actual number of zones, the legislation should limit the area of the zone to, say, no more than 5 percent to 10 percent of the land area of the distressed

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municipalty. Right now there are many who are skeptical that the Enterprise Zone concept can work. As I said, I believe it can. I know that the President and the Senate also believe that it can. Thus it seems to me that those of us who are so committed have a duty to help make a good law better, accepting constructive criticism where it is warranted. I hope that--from my perspective as a city councilman in one of the nation's major cities--I have contributed to that process. Thank you again for inviting me to be here today.

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Senator MATTINGLY. Councilman Pitts is here in the audience. I wonder if you would please come up and have a seat with the rest of the panel.

Mr. Sweat, please proceed as you wish.

STATEMENT OF DAN E. SWEAT JR., PRESIDENT, CENTRAL ATLANTA PROGRESS, INC., ATLANTA, GA.

Mr. SWEAT. Thank you very much, Senator, for giving me the opportunity to join this panel and make a few comments on the Enterprise Zone legislation. This is a concept that I've followed closely, I guess, ever since the phrase was first used by Prime Minister Thatcher's government in England several years ago. Even before then, many States had enacted legislation that allowed for a suspension of taxes or some sort of deregulation within designated areas. Obviously, free trade areas, of which there are some 60 in this country, are also designed to stimulate private investment and business activity.

Now, as an organization composed of the chief executive officers of some 175 major downtown businesses and property owners, Central Atlanta Progress is firmly committed to strengthening the economy of our central areas. Without a strong central city, we believe, the rest of the metropolitan area will suffer; and I think because of Atlanta's significant economic impact, we're not talking about just the rest of the metropolitan area, but the entire State of Georgia. Our programs, therefore, are designed to create a healthy business climate in which private business can operate as freely as is practical in order to produce jobs for our citizens, as well as revenues to fund needed government services. So I think we're probably sort of in line with the general concept of Enterprise Zones from day one.

Atlanta has, fortunately, escaped some of the more serious problems that have plagued many of our older northeastern cities. Part of that reason, I think, is our youth, simply; but a central factor in our success is the tradition of cooperation between business and government that has existed in Atlanta for many, many years. In fact, that is Central Atlanta Progress' primary function, to forge partnerships between the public and private sectors for the improvement of our downtown and our inner city.

Now, the course of Federal urban policy during the last 30 years has been, if not capricious, I think, at least circuitous. We have had New Deals and Square Deals, Great Societies, and New Frontiers. We have had Job Corps and Peace Corps and Model Cities and CETA. One administration spends billions for slum clearance to make life better in the cities. Another builds freeways so that everybody can get the hell out of the cities. Private enterprise has encouraged a direct investment into the cities, but Washington spends a few billion more to extend water and sewerage lines into the suburbs. Then Washington says, "Let's rebuild the cities again."

Although we can never be sure that any national policy will last long enough to enable us to resolve the problem before that pendulum starts to swing in the opposite direction again, what is clear is that America's cities will neither be transformed by a Horatio Alger success story, nor by a new New Deal. The success or failure of our urban

policies depends upon the efforts of both public and private sectors and their ability to work together.

The bottom line for urban development in today's economy is the inadequacy of purely public funds for the job. There is simply not enough money to underwrite the necessary public improvements, and without these improvements there is not enough incentive for private investment to come in; and this inadequacy is absolute.

Even with utopian political coordination and the elimination of bureaucratic and community infighting for the public moneys which are available, there would still be too few dollars and too many public facilities and services in need of support. Thus, in our view, public-private cooperation is not an option, but, rather, an economic requirement. Public funds and public policy must be used to lever private capital into our cities. Private initiative must be encouraged and allowed to operate as freely as is possible within the area it knows best.

Now, I've been giving sermons on this whole public-private partnership for nearly 5 years, and I saw Richard Guchman cringing, so I'll stop there with it. But I submit that never has that partnership been more important and more central to urban development than it is today. Many of the tools that we used to have to work with, as Mayor Israel pointed out—EDA, UDAG, SBA—have been drastically cut back, or will be. Interest rates and land costs are so high that many projects are not economically feasible without some sort of governmental participation or involvement.

If supply-side economics is successful, we do have the bonus of a tremendous economic boom. But what do we do in the meantime? The cutbacks in spending are immediate. The effects of the tax cut are long range, leaving a lot of us with a sort of, "What are we supposed to do right here and now?" type feeling.

Enterprise Zones, if enacted, will hopefully answer that question. The variations of the several bills now under consideration are significant. They differ in the number of zones created and how they are defined. They differ in the extent that they favor small business, in their emphasis on capital intensity, labor intensive industry, and how they will be administered at the Federal level. But whatever the specific tax provisions eventually included in the legislation, the impact of those incentives will vary greatly from one city to another, and from one zone to another.

The most significant variable will be the ability of States, local governments, and others to supplement the tax incentives with other financial, physical, and political factors necessary for private investment to actually occur. There must be sufficient land, adequate infrastructure, affordable financing, an equitable tax system, adequate labor, and a public development capacity. Although the Enterprise Zone concept may begin to address the issue of taxes, it will be up to the State and local governments to supply some of the other necessary incentives.

Now, given the cuts in Federal development programs, the already strapped municipal budget, and the continuing high cost of borrowing, it may be difficult for some cities to put together the requisite package of incentives for an Enterprise Zone. Communities with greater overall resources will have an advantage in insuring the success of

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an Enterprise Zone. Unfortunately, these are not always the cities that most need the zones.

Atlanta this year is faced with a $15 million budget shortfall, at least part of which has been occasioned by cutbacks in spending from Washington. We are facing both cutbacks in the services and increases in property taxes to balance the municipal budget, which is mandated by State law. In fact, I have gotten a lot of notoriety for moving into the Buttermilk Bottoms the last 4 weeks and the Bedford Pines projects; and I told Mayor Jackson just the day before he left office, I said, "Mr. Mayor, you know, I've only been living in the city for 2 weeks. You've already doubled my garbage pickup fee and added 3 mills to my taxes." So we do have a very serious problem.

But, obviously, any program that hinges on abatement or reduction of property taxes presents us with an additional budget deficit which must be made up in other areas.

Furthermore, tax incentives alone may do little to stimulate private investment. Factors such as market strength, access to transportation, and labor force quality may influence a firm's location decisions more strongly than tax considerations. The Georgia-Pacific Corp.'s decision to move its corporate headquarters from Portland, Oreg., to downtown Atlanta had more to do with the source of timber for its products and with Atlanta's superb transportation network than with the taxes it has to pay to local, State, or Federal Governments.

Also, the tax incentives contained in any Enterprise Zone legislation must be viewed in light of the administration's overall tax cut. Only a significant differential between the zone's tax benefits and the cuts provided for in the Economic Recovery Tax Act, in my view, will induce firms to take a risk in those urban areas where crime, poor public services, and other disincentives continue to exist.

Finally, the cost of tax incentives to Government must be weighed very carefully. According to a Treasury Department report recently, grants could generate the same level of new economic activity and cost no more than the revenues lost in Enterprise Zone taxes. After studying the possible impact of the Kemp-Garcia incentives on two potential Enterprise Zones in Chicago, the Treasury Department concluded that a single zone could cost the Federal Government over $95 million in lost tax revenues. The cost per job created, as reported in this Treasury Department study, would range from $28,800, to $60,450. By contrast, a UDAG can create a new job for about $6,400, and EDA estimates its cost for a new or retained job at $3,789.

Any legislation that reduces revenues and thus increases the Federal deficit, already projected at more than $100 billion, must be looked at very carefully.

No matter what form the Enterprise Zones take, they must address the issue of job creation, and should favor those types of businesses that can employ those who have traditionally been left out of the economic mainstream.

One of Atlanta's most serious problems is that of jobs. While we may not have suffered the physical deterioration that has occurred in other cities, we have, at least, a growing mismatch between the available jobs and skills of our labor force. Increasingly, we are a service economy, largely white collar; and our unemployment statistics of

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metro Atlanta are traditionally below the national average; but if you look at unskilled labor, mostly poor and black, you'll find some disturbing numbers. Of black males between the ages of 20 and 24, the unemployment rate is more than 25 percent. Of black youth, unemployment is even higher.

Now, obviously, Atlanta's situation is not unique. Those areas with the highest unemployment rates—that is, those areas most suitable for the Enterprise Zone concept—are generally those areas with the greatest percentage of unskilled, semiskilled people. The legislation should also contain sufficient incentives for small businesses. Small businesses, as has already been pointed out, are responsible for some two-thirds of the jobs created in this country. Not all tax revisions are applicable to small companies. Refundable tax credits may be more beneficial to small businesses than elimination of the capital gains tax.

The legislation must also allow for the greatest flexibility. State laws and municipal ordinances vary greatly throughout the Nation. Any Enterprise Zone bill that includes provisions for the relaxation of State and local laws must be sensitive to those regional and local differences, so that problems unique to a certain locality are addressed. After all, what may work in Atlanta may be unsuitable for Newark, or South Bronx, and vice versa.

But whatever form the legislation ultimately takes, those of us involved in strengthening our central cities are committed to making it work in America's cities. Cities are not only the future of business, but of our Nation. They are, whether majestic cultural and residential centers, or blighted eyesores, our monuments. They embody our history, as well as our future aspirations; and I steadfastly believe that if we all recognize that the cities are not an expendable part of our social fabric, and accept the hard choices along the way, then cities will emerge as our most treasured national asset, and as an enduring example of our way of life and system of government.

So we certainly appreciate your coming and giving us the opportunity, and you have our full cooperation in developing the legislation.

Senator MATTINGLY. Thank you.

Councilman Pitts, would you care to say a word or two.

TESTIMONY OF ROBERT PITTS, MEMBER, ATLANTA CITY COUNCIL, ATLANTA, GA.

Mr. PITTS. I won't waste your time in restating what's already been stated by the three previous speakers. I'm here today as an interested member of the Atlanta City Council and obviously to support the comments of Councilman Guthman, my colleague. So with that, I'll just wait and make some appropriate comments if the opportunity presents itself later on.

Thank you.

Representative GINGRICH. I was struck a little bit both by Mr. Sweat's and by Mr. Guthman's statements, at two levels. I think, if the Urban Enterprise Zone represents anything, it's sort of a clumsy first step toward trying to rethink how we make what you call hard choices, Mr. Sweat.

It seems to me it's based in the long run on the premise that what we really want to do is somehow free up people, so that they psycholog-

ically start behaving differently than they have been in the last 20 years.

The thing that gets to me, I think, is the sense of helplessness that says hard choices are always external. That is, if somehow the Federal Government makes a hard choice to find another $500 million, that things can happen.

I had a couple of specific requests I wanted to make based on your paper and Richard Guthman's, and also on a paper which, if you haven't gotten a copy of, I think I can get for you: Mr. Butler's testimony that will be made later on, which is well worth looking at.

You make the point here that the most significant variable would be the ability of State and local governments and others to supplement the tax incentives. I think we should do a study, empower a community, specifically saying, almost like a report to Andy Young, "These are the 27 things Atlanta could do if Atlanta wanted to create an Enterprise Zone that was different, that cut out regulation and redtape and bureaucracy."

Then, on Easter Sunday, Andy Young wanted to deliver a sermon and say, "By George, we're going to create 5,000 new black-owned businesses in Atlanta, and here's how we're going to do it."

It seems to me that that's the kind of intellectual breakthrough that doesn't require that Ronald do anything.

Mr. SWEAT. Well, I would certainly support that concept. One of the things that concerns me, and I know you and I communicated on this way back, I guess, a year or so ago, the first communication I had came from you, on this Enterprise Zone concept; but the thing that concerned me over the years—and I guess I've been involved in the Federal programs dating back to Eisenhower, as part of the local urban scene—is that, if we're not careful, the way the programs come out of Washington, they're geared to the South Bronx, for example. I remember when UDAG was being discussed. I was involved in some discussion with Jim Ryals and John Portman and a lot of major developers; and even from the beginning, I know there was a tendency to want to say, "Well, let's gear this UDAG program for the South Bronx." And we aren't the South Bronx. Their problems are completely different; and ours are different from George Israels' in Macon, and Albany's, and so forth; and I think that we've got to have the flexibility among States and among cities in order to do what you suggest.

Representative GINGRICH. I find that when you get to Washington everything becomes national, and therefore somehow vague and fuzzy and confusing.

If there were an agency in this area who could start at the ground up and say, "Here is what Atlanta can do, purely by itself; here's what Fulton County can do, purely by itself; here's what the State can do, purely by itself," the amount of freedom that Councilman Pitts would have to, this April or May, go in and cut out the red tape that kills small business would be immense.

The central point of Butler's testimony is that influence affirms location decisions. The central thing wrong with every group I've heard that talks about Enterprise Zones is they talk about them as a way of influencing that outside corporate decisions of people who aren't already in the zone.

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But if you wanted to have, in Mayor Young's first term, 5,000 new small businesses in Atlanta, what would you do? Every indicator we have says if you want to really hire black males who are between 20 and 25, you'd better create black-owned small businesses. You're not going to do that by getting IBM or anybody else to build a new factory in this area, it's just not going to happen.

Again, I don't know of any study that starts from the ground up and says, "In order to get 5,000"—and I use that because I think it's a reasonable figure for a city this size—"new businesses in the next 4 years, you'll have to do X."

As you mentioned, a growing mismatch between available jobs and skills of our labor force. I really wonder what would happen if the city of Atlanta were to decide to distort its tax base, in a sense, and create some kind of revenue bond administration that said to every scientist in the Atlanta metro area:

> As long as you're willing to set up an enterprise in which 40 percent or 49 percent of your enterprise was owned by a minority entrepreneur, we would find ways to insure that you occurred. We'd get you that initial first-year survival money.

Because if you had a Georgia Tech-Central Atlanta alliance, and if we had an explosion in central Atlanta of new technological companies, it seems to me that kind of strategy would probably do more to change the city than the next generation of UDAG and CETA combined. I mention these because all of these are things that could be done by local leadership with local direction.

I realize you're here today in large part to comment on Federal legislation; but if, in fact, and I'm responding to the wording of your statement. If, in fact, we think of Enterprise Zones as an effort to somehow distort the advantages so that a company will come to downtown Atlanta instead of Douglasville, I think we essentially miss the whole point.

The founding purpose of Enterprise Zones in the British model was to try to be an area in which the local community locally grew new businesses. And my hunch is that Kemp-Garcia is too much a national bill. It is too much aimed at the big corporations, the big decisions, the big effort.

What if we were to scrap that whole effort and come back and say, as I said a minute ago, "What could we do in the city to create 5,000 new businesses in the near future?"

Mr. Guthman, I agree very much with your point that we should not limit the number of Enterprise Zones. There ought to be some abstract description to get the bureaucracy out of the way, and any body who fits that abstract description is an Enterprise Zone.

You said that you had a task force that has been working on this: Is there a way to get your legislation commitee to look at that in terms of starting with the city and then the State, and to really come at it from a business creation, business invention, rather than a business relocation, approach.

Mr. GUTHMAN. We have done, Congressman Gingrich, something of that sort already in our study. You will hear later from Jim Baker, managing partner of Coopers & Lybrand, who is also on our task force, who will be addressing some other activities or some other areas. So we

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have already created a matrix which, perhaps needs to be a little bit more formalized and sophisticated; but, nonetheless, created a matrix that shows the various incentives, what we and the city have the power to do with our constitutional authority, or that granted to us by the State, and what the State has the power to do that would be further incentives that we could give.

But let me, if I may, take exception to, perhaps, some of the theses that you are propounding here. I think that I do not believe that if you have a black-owned business, that you necessarily insure black jobs, or that you insure success just because it's in the inner city. Control Data, as you know, has done a rather significant job in bringing new employment, particularly to minorities in the inner cities in areas that were bad; but their major focus was on training. We have found, or at least it is my experience, in the people that we have talked to and the people who have come to Atlanta, telling us what they look for in site selection that really tax incentives fall way down toward the latter part of any list out of 1 through 10. It is not the major thing. Obviously, transportation, if they need transportation. But so often, and primarily, it is the quality of the work force; and we have to start at the basic level, our school system; and they are beginning to re-think how you train and how you get people prepared for this technological era that we are about to literally explode in.

Manufacturing, as we used to know it, might be something that is on its way out as far as this country is concerned. That's evidenced by what's taking place in the automobile industry, what's also taking place in some of the other areas. So I would say that, yes, small and medium-size businesses are the core for the employment; but that doesn't mean that you would necessarily have to start up a new entrepreneurship to do this. You could have expanding needs which create additional jobs, but I would also reemphasize that job training, both in terms of skill and in terms of attitude, is extremely important.

Representative GINGRICH. In that sense, would you want a very strong apprenticeship program tied in with your enterprises?

Mr. GUTHMAN. I think it would make—it's a good part of that.

The other thing which perhaps Jim is going to say in his testimony is that you have the incubator-type of business; and I think either you or Senator Mattingly mentioned it in your opening remarks, that it's the small business that begins, and it needs some additional help before it matures and moves up to another level of where it can be more on its own.

So there are a lot of things that the incubator industry is going to have to need that is so far, perhaps, not addressed in the incentive. To borrow money, as an example: If you don't have any credit to start with, it's very difficult to borrow money. I don't care what the interest rate is. But coupled with the high interest rate, it then even makes it more difficult; and an incubator industry is not going to have very much profit to begin with. If it does, it might need some investigation as to what kind of business it's in, if it follows the kind of things that generally happen.

So how do you help out this beginning? I stress, and I continue to stress, that it's the training of the labor force and the quality of the labor force which has more to do with anybody entering. It makes no

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difference whether it's black-owned, pink-owned, or white-owned; but if you don't have the quality of the force to produce the goods and services that you want to do, it'll go down the tubes.

Senator MATTINGLY. Because Mayor Israel brought it up, or he made the comment that the UDAG program had not helped the small businesses that much, what ways do you think, what strategy do you think, would help in financing the small businesses?

Mr. ISRAEL. Well, I don't want to get too far off the subject. I think the No. 1 problem I see of some of the small businessmen that I've talked to is trying to compete against the Federal Government and the capital market. That's the biggest problem, is the interest rates, I think, that is stifling the expansion that is possible within that particular area.

Aside from that, I think that many of those small businesses do not have the resources at their fingertips for some of the expertise record-keeping to take advantage of some of the incentives perhaps they've even got, especially under the Economic Recovery Act of 1981, which Dan Sweat has alluded to.

Senator MATTINGLY. You were mentioning pools of funds?

Mr. ISRAEL. That's right. In this particular area, the pools of funds that we have used was mainly to help the small businessman to get funding so we could get the private investment to match our UDAG effort. All of our UDAG was channeled into public infrastructure improvement. We did not subsidize any business. We went, therefore, to the banks and formed a consortium, or loan pool. They borrowed, under Urban Development Authority, tax-exempt funds, where the banks and we developed contractual arrangements with the Urban Development Authority to, in essence, through those contracts, give them the sources of revenue that they could in turn use to guarantee the loan; and we kind of had a small business insurance pool, that some 43 businesses are participating in, in our inner city area.

The problem those small businessmen have was trying to go to their local bank, and their cash flow just would not stand—their profit margins would not stand, at that time, the 17, 18, or 19 percent interest. So interest rates, I think, are crucial in trying to provide the necessary capital for them to expand, which brings me to another topic, and that's the tax-free bond issue, which right now, I think, on one end we have the Federal Government trying to say, "Let's go with an Urban, or an Enterprise Zone."; on the other hand we have another congressional committee who's saying, "What we need to do is take away the IRB's and tax-free bonds from local government as a tool." Obviously, they're looking at tax expenditures and trying to reduce every dime that flows out of the Federal Treasury in that manner as a tax expenditure; but I assure you that right now, if that were to occur, you would not have many businesses expanding, period.

Sure, there have been abuses. You can always point to the occasional K-Mart or McDonald's in some communities; but in the State of Georgia, with few exceptions, I don't think you have seen gross abuse of the tax-free bond issue. So that, again, is something I think would, as Dan pointed out—the capricious policy, I think, is an example.

Senator MATTINGLY. One of the best things the city of Atlanta, or any city can do is to come up with—as you referred to it—27 good

ideas of what you're going to use as encouragements to somebody to start a business. I think this gets right down to the competing for the Enterprise Zone, which is really what it's going to be. Any suggestions that you may have, which I think you mentioned in talking about the apprenticeship, which could be written into the legislation, I think would be good. Any additions you may have to the legislation that will be coming out of the Congress—we would like to have input. Maybe some of these ideas that you-all have can incorporate into the concept. If you're competing for Enterprise Zones, I'm sure that the more good things you can come up with, probably, is going to be how you are going to be able to be designated as an Enterprise Zone. I think that this is why the cities and other areas should really be coming forth with creativeness also on their part, which I'm sure they will.

Mr. GUTHMAN. Senator Mattingly, may I ask you a question on that, because that's the part that's got me just a little bit—not bewildered, but not knowing, sometimes, what direction. You only have so much energy; and you try to direct it in the most productive way. There doesn't seem to be—or, at least, I haven't heard—any standards by which there is going to be judged, if, in fact, there's going to be this competition.

Now, as I said, I disagree with the concept of the competition. It puts me up against Macon or Savannah or someone else. I may go through all this effort, and then, because of somebody's—if you only have 10 of 15 throughout the entire country, then it's—really, it's self-defeating. I can spend more of my energies and my city's energies in going out and doing something else, rather than trying to figure out how to compete for this kind of idea; because Jim Baker, I hope, is going to say in his, what does a business look at when it decides to put itself in this particular spot? And I would hope, again, if the concept is good, and if you want to promote jobs, which I understand is the idea, and you want to revitalize the cities, and I can understand certain parameters that a city has to meet in terms of its unemployment, and so forth. Then why limit them? Have them everywhere, if they're of value, because one thing for sure, that you're not taking away any resources from that locality, because it doesn't have it now, anyway. So if you're putting something in, you're going to better it.

Senator MATTINGLY. I think, Mr. Guthman, what you're saying is a good point. I've heard both sides, but I think possibly—I don't even know. Maybe there ought to be some type of treaty in there, to say that everybody's qualified that has some—it could possibly be based on an unemployment rate.

Mr. GUTHMAN. But I'm hoping, in Atlanta, for instance, that we will have an Enterprise Zone, whether we have a Federal zone or not. I'm also hoping that the State of Georgia—and Mayor Israel and I are going to be meeting Sunday with GMA meets and discuss, I hope, with Jim Pickney, director of corporate community affairs, what we need at the State level for legislation that will give us the certain things that we can do. As you know, we cannot do anything with property taxes, in the city or in the State of Georgia, because that's unconstitutional. So there are a lot of things.

Unfortunately, from a legislative point of view, cities are somewhat limited as to things they can do. We can create an Enterprise Zone

that is free from zoning restrictions, if you will. That, we can do. But we have put together, as I said, a matrix of what we can do, and so forth.

Representative GINGRICH. I would be very willing on the House side to push for a criteria break rather than a specific limited number; and I think if that became something that was pushed fairly hard by the National League of Cities and the National Municipal Association, we would have a pretty good chance of getting that in.

It would be a major mistake to set this up as 1 more pork barrel effort, where you have 15 and, therefore, everybody maneuvers with the bureaucracy. You're perpetuating all the things that are wrong with the current system.

Mr. GUTHMAN. I think we can do something of that nature. As I suggested, they may be limited to some percentage of the land mass——

Representative GINGRICH. But there ought to be a way to get a compromise that's neutral and not bureaucratic.

Mr. ISRAEL. Speaking to that, one of the problems we've always had is depending on which department administers the program. You have the CBDG and the UDAG, which comes under HUD. You've got the eligibility for distressed cities and so on. Then you've got—under the Department of Commerce, you have the EDA program. You had to get the EDA designation. A lot of cities that were distressed, and you look at them and say they had more serious problems than some of the cities that did get the designation. I think the distressed city designation, if you're going to see some effort, as you know, to utilize the pocket of poverty designation, under that pocket of poverty designation you can take some cities, like Sunnydale, Calif., that has an average income of some—what is it?—$50,000 per capita; and you can actually designate a pocket of poverty, where folks there are earning $35,000 to $40,000 a year in that particular neighborhood. So I think the distressed city designation—and it might even be, if you go with just the unemployment, you can fall in and out of it on really long term, you've somehow got to develop a program; and even sometimes those statistics don't really show the facts, as I indicated in my statement, because you can have sometimes a 6-percent unemployment; but when you look at black youth or black heads of households or black males, you have a much higher unemployment figure. So sometimes those are superficial. You have to get inside the statistics. But I think that distressed city designation is one that I think most of the national organizations, and certainly I think GMA, would support.

Senator MATTINGLY. It goes right in, if you're talking about looking at just Ward 4 here in Atlanta.

Mr. ISRAEL. Yes.

Senator MATTINGLY. Having been a small businessman, what could you two as councilmen do to encourage me to start a business out there? That's who it needs to be looked at, as far as incentive.

Representative GINGRICH. Could you get me these copies of your reports, Richard? I'd like to stay in touch with you on that.

Mr. GUTHMAN. [Nods head affirmatively.]

Senator MATTINGLY. Thank you very much.

Could we have the remaining witnesses come forward. Mr. Butler, Mr. Vash, Mr. Legg, Mr. Shinhoster, Mr. Baker, and Mr. Ward.

Mr. Ward, would you make your statement at this time.

STATEMENT OF FELKER WARD, PRESIDENT, ATLANTA BUSINESS LEAGUE, ATLANTA, GA.

Mr. WARD. Thank you, Senator.

I would be brief in my opening remarks, with the hope that we can get into discussion.

I want to again say thanks to you and Congressman Gingrich for coming down and listening to us today.

My name is Felker Ward, and I come to this question from two perspectives. First of all, as a practicing attorney in a firm which has a heavy emphasis on taxes and finance. I have been involved in many, many efforts, such as the Urban Residential Finance Authority, the Georgia Residential Finance Authority, and other authorities, and what-have-you, in efforts which are designed to do, I think, some of, at least, what this legislation is designed to do; and so I've watched some of things I think might work and some I think might not work.

Second, I'm the president of the Atlanta Business League, and I have observed over the years the plight of struggling and often fledgling minority businesses in the greater metropolitan area; and with that background, I start by saying I think this Enterprise Zone concept is a good one; and I come today to speak in support of it.

Having said that, let me say this: One might think, as you consider something like an Enterprise Zone concept, as you look at the industrialized world, one might think that perhaps Japan must have something like this, or that West Germany must have something like this. The fact is that they don't. The country which traditionally has had more tax incentives than any other in the industrialized world, surprisingly, is Great Britain. Even before the current Enterprise Zone experiment in Britain, they have been a leader in the industrialized world in tax incentives; and I don't need to tell you that it is one of the stalest economies and industrial machines there is in the industrialized world; and I think that that observation is important for us, because it says that we've got to be smart, I think, in how we go about creating additional tax incentives, such as this Enterprise Zone concept invention.

So to that end. I would say this: There are about four things that I would mention that I think are extremely important; and if we don't pay close attention to them, I think it is doomed to fail.

First of all, I think it has to be—I agree with much of what you've already heard. There's no point in repeating it, the importance of it, and this sort of thing. So I'm going right to the heart of it.

First of all, I think that it has to be a total program. Indeed, one can argue that it won't do this or it won't do that or it won't do the other. I doubt there's any program you can develop, in and of itself, which will be designed and effective in creating new small businesses, curing the ill health of existing small businesses, and attracting large businesses into the same area. You might not be able to create one piece of legislation that'll do all that.

I do think, however, that as you develop this legislation, you have to look at it as a total program, and insure that all the components are there. For example, tax incentives do not provide capital over the short term; and yet, if you're talking about the health of existing small businesses or creation of new small businesses, that's a component that has

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to be in place. Otherwise, the Enterprise Zone concept sitting out there alone is not going to be nearly as effective as it otherwise could be.

Second, I think that the legislation has to be so drafted that it makes maximum utilization of the existing infrastructure. Before we start talking about new businesses coming into an area, let's do something that is going to do something about the health of those that are already there. You might be amazed to know that in the greater Altanta area there are literally hundreds of existing small and minority businesses now already located in whatever kind of definition you want to use for an Enterprise Zone. They're already there. And the first thing we need to do is something about their health.

In the Atlanta Business League, I've looked back over our rosters for the last 3 or 4 years; and I am amazed at the hundreds of existing businesses; and I can tell you that most of them are in ill health. So they are there. We've got to look at the existing infrastructure.

Second, the buildings. I think the legislation ought to be so drafted that it invites and, indeed, enhances the opportunity for the utilization of existing structures. This is one of the main problems for some of our inner city areas, that there are decayed, rundown buildings which exist; and I think that we don't have to put up a new building. Let's do something with the ones we've got.

Third—and I've heard this before—obviously, the most important: The incentive has to be such that the businesses will utilize the people that are currently located in those zones. There has to be an advantage to employing a person who lives in one of these zones already, as opposed to someone coming in.

Second, attention must be given to the maximum involvement of minority businesses. Now, let me just say something about that for a minute. One might say, "Well, now, wait a minute. Why is that important?" Well, I'll tell you why that's important. Whether you like it or not, the proof of the matter is, as Congressman Gingrich has said, in our city, at least, and, I suspect, in many other cities, the most involved people in this problem are minorities. Now, let's accept that as a fact of life and crank that into our thinking when we start to put together a program that is designed to deal with the problems of blight and unemployment and poverty and crime in our inner city.

In the first place, if you don't do that, I don't think the program will work. The people are not going to accept it. They're not going to like it. And, second, I simply think it would fail in its ultimate purpose because I think that, as I see it, businesses from the outside coming in are never going to do anything about the problem. We have some 19,000 people in Atlanta who are employed by minority businesses. That's an important and a significant labor force. It is important that you find a way to help make those minority businesses healthy. So, yes, I think you ought to target minority businesses and make that a plank in the program, if you will.

Third, I think that the legislation must insure a maximum pass-through of benefits to those whom you are seeking to reach. Of course, the extreme example, or the antithesis to that, is the bureaucracy. Any bureaucratic program. I have found, by the time the benefits get down to the bottom, as you well know, so much of it has been bled off that there is very little left. I'm simply suggesting that in this program we

must somehow find a way, and by doing this, we will avoid some of the arguments I've heard against it, such as the big businesses come in and really benefit most from this, and this sort of thing. Yes, that is true if we let it happen; but I think that if we recognize that ultimately we must insure these benefits get down to the bottom, that we will have certainly recognized that the businesses who are enjoying this don't get all the gravy. Let's not be unrealistic enough to think that 100 percent of it is going to go all the way down to the bottom. If you don't make it attractive to the business to do it and he gets some benefit from it, he's not going to participate. But let's insure that there's a proper balance in where the benefits ultimately rest in the program.

And, finally, I think that if we're not to have what Mr. Sweat described as another failure in some program, which are legion, what we have to do at the outset is to draw some political battlelines and say, "These components must be there, or the program won't work."

I suspect—and having not ever been an elected person, I'm not sure about this, but I suspect that one can fall in a trap of having a piece of legislation become an end unto itself, if you're not careful. We've got to pass this legislation, and we start giving and we start giving, and we start deleting, and we start modifying in order to meet the political nuances necessary; and the next thing you know, you've got another failure on your hands, another unsuccessful program; and I think you're going to have to draw some political battlelines and say, "If these components are not there, the program simply won't work, and below that we will not go." If you don't do that, I think we will have been better off to have not elected the program in the first place.

Finally, I would endorse Mayor Israel's request and suggestion that once legislation is ultimately put together, that you come back and we be given an opportunity by some mechanism to comment specifically on the legislation, so that, to the extent that those of us who are out here can detect flaws before it's put into place, perhaps we could do that. It's important that we do something like this. The unemployment picture that you heard about here this morning and that you see in the newspaper does not promise to get any better; and the trends toward improvement are not very encouraging or meaningful to those individuals who are unemployed, or whose businesses are failing; and, furthermore, as I read the news now, there is no promise for immediate improvement, anyway; and if the current administration programs don't work—and I'm beginning to get a little bit nervous about some of them, from what I read—I see a major disaster and a major crisis on our hands, because those who will suffer most from the failure in those programs are the poorest of the poor; and, therefore, to the extent that we can devise alternate programs now that are going to give us a slight jump on that kind of result, I think it's important that we do so.

It seems to me that this enterprise program offers one of those possibilities.

At that point, I'll stop and give someone else a chance.

Senator MATTINGLY. State Representative David Scott has come in. If you would, David, please come up to the table, so you can also comment.

Mr. Butler, would you proceed now, please.

STATEMENT OF STUART M. BUTLER, THE HERITAGE FOUNDATION, WASHINGTON, D.C.

Mr. BUTLER. Yes, indeed, thank you very much for the opportunity to testify today. I have provided a prepared statement. I'd just like to highlight some of the points from that.

I think it is very important when one is discussing the idea of Enterprise Zone, to keep in mind the objectives and the assumptions behind the concept, and Congressman Gingrich drew our attention to the fact that the idea of the Enterprise Zone is to bring into action dormant factors of production in the inner cities. The aim should be to draw on the potential of these areas, rather than to lure or bring in business activity from somewhere else. The idea of the Enterprise Zone is not to bring back businesses either from other cities, or even from the suburbs into the city areas; it is to create new businesses within those areas. New business formations used to be an essential feature of cities. That is what has died out, and that is what the Enterprise Zone should seek to recreate.

It's also important to see the Enterprise Zone in this light with regard to the national economy, because we are talking about a situation where, if we encourage new business activity, it means we are not robbing Peter to pay Paul; we are not robbing Houston to pay Atlanta or New York; I think some of the support by the administration is based on this idea of seeing the Enterprise Zones as adding to the national economy, not merely reallocating it.

I think another very important element of the concept which has to be borne in mind is the idea of spreading ownership of businesses. I don't believe that it's sufficient to create jobs in the inner city areas. It's important to create job creators, to build a business class of leadership within these communities that can encourage other people and can provide the kind of social backbone, if you like, to get the areas themselves to develop both socially and economically.

I think it's also important to see the Enterprise Zones in the context of a general development of the inner city neighborhood. Therefore, they should be seen as related to the President's push to encourage volunteerism in such areas by helping to remove impediments to local initiative by neighborhood organizations and other groups. The Enterprise Zone is the business equivalent of that kind of development.

I think, finally, in terms of the objectives, it's important to appreciate that the idea of the Enterprise Zone is to encourage adaption and innovation, to encourage change. Therefore, we should avoid a process that might try to plan too carefully what is going to happen in Enterprise Zones. The idea of innovation is almost diametrically opposed to the idea of careful planning; and I think that the bureaucrats that Congressman Gingrich commented on in his statement ought to take a back seat.

We know certain things about inner cities and the development of businesses that I think are important, therefore, in looking at the kinds of incentives that are necessary in the Enterprise Zone. It's been emphasized already that small business must be the essential feature of an Enterprise Zone. That's where the jobs come from. We have overwhelming evidence to support that. Small businesses also tend to re-

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cruit work force much more from unskilled and local people than is generally the case in larger businesses.

Studies by the National Federation of Independent Businesses show a very high proportion of people hired by small businesses are hired through referrals or people just walking in off the street. This is much lower in the case of larger businesses. So I think in small businesses you have the opportunity, without requiring businesses to do so, of developing a situation whereby local people will tend to get jobs.

It's also important to appreciate the problems of small business, that the local regulations, especially, pose a very severe problem, much more so than for large businesses. Acquiring capital is the other essential problem that small businesses argue is an inhibitor to their development.

Therefore, we have to look at the kinds of ways in which tax changes will tend to affect small businesses as opposed to large businesses.

It's been mentioned before in the previous panel, I believe, that large businesses do not tend to be that sensitive to tax incentives. They tend to look at other factors. So it seems to me that, if we try to develop an Enterprise Zone package that's aimed at the larger businesses, we won't be that successful. On the other hand, other people say that tax incentives are not very good for small businesses, because most small businesses pay very little or no tax. How can tax incentives be very attractive to them?

Well, they're attractive to them because tax incentives can affect people's investment decisions. A tax incentive may well encourage someone to put money into a small business, even if that small business itself does not enjoy particularly large tax breaks; and I think that's the central element of the tax incentive that must be in place in an Enterprise Zone.

Just in passing, I should just comment on the British case, since Britain has been much maligned in the last few moments. I think the British experience strengthens my argument rather than the reverse. In Britain, the general tendency of tax relief to encourage business has been major reductions of corporate income tax, or improved depreciation allowances, which can only be enjoyed by large businesses. So we have a situation in Britain of the tax code encouraging those that are already big to get bigger.

I should comment that the lease-back arrangement in the Economic Recovery Act bears a similarity to British case, by enabling large businesses to grow larger. What we've been lacking until recently are tax incentives to encourage people to put money into small businesses. We've had very, very high rates of tax on personal income and on investment income; so that I think, if you're looking at the incentives that will tend to help small business formation in inner city areas, and for small businesses in particular. We must look at tax incentives that are geared to smaller investors to encourage a middle-income person, who at the moment may put his money into property, IRA accounts, or into some other kind of tax shelter investment, to look instead at small businesses. I would encourage the Joint Economic Committee to examine a recent idea developed in Britain, which is not related to the Enter-

prise Zone. This is the idea of allowing people to expense in 1 year an investment in a small business.

The British now have a program which has only just been put in place, which allows people to take a tax deduction for the investment in a small business which is less than 3 years old, up to a ceiling of equivalent to about $20,000. Even at this early stage, what this had led to, the development of what you might call investment clubs or investment firms, where small investors pool money and small investments are then being made in small businesses. It seems to me that particularly in minority communities this may well be a way of joining together capital within the community and encouraging the reinvestment of that capital into local businesses.

I think, also, we've seen that the capital gains tax—or the lack of the capital gains tax—can be a very powerful incentive to business start-ups. The record of reaction to the changes in the capital gain tax is very impressive: and I think that an Enterprise Zone must, if not eliminate capital gains tax, certainly defer capital gains tax while tax investment remains in a zone.

I think there also must be a cap on the total amount of tax benefits that can be taken in an Enterprise Zone. By that, I mean that the Enterprise Zone must be a shot in the arm for businesses, rather than a life support system that continues no matter how big the business becomes. I think it's very important to see the Enterprise Zone as an injection of development, rather than a general support to businesses. That would also tend to make the Enterprise Zones much more attractive to new, local start-up businesses than for relocations.

I think it's also important, although I know there's opposition to this, to try and make the tax credits on the payroll tax refundable. If people are not employed at the moment, they're not paying taxes, and they're not paying social security. If the Federal Government merely gives a refund for that payroll tax to the employer, I don't see that that's a loss to the Treasury.

We should also take the bull by the horns and at least consider the possibility of relaxing minimum wage within these areas. The Commerce Department's task force on minority business, that looked at the Enterprise Zone, found very strong support among minority businessmen for relaxation of the minimum wage. These minority employers felt that the minimum wage is an impediment to the recruitment of minorities, particularly young minorities; and so I think we should consider reducing the minimum wage within these areas.

A possible way of doing this might be to allow minimum wage to be reduced for youth, providing that the demand for this comes from the neighborhood itself. So, in other words, it wouldn't be a general part of the program, but would be an optional extra if there was strong support for that in the zone itself. This, it seems to me, gets around the argument that you're merely imposing this on certain areas.

I think, finally, there is one comment I should make in reply to the number of zones. I'm very much a supporter of a limit on the number of zones. Even though I believe that Enterprise Zones will work, I don't think we can guarantee that in advance. We don't know a lot of the effects that will occur, the unintended effects as well as the intended

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effects. If it's taken us 30 years to destroy cities, we should at least go carefully in terms of a program that will revive them.

The element of competition is also important. If you see the Enterprise Zone as primarily a local initiative upon which the Federal Government adds incentives, it seems to me that you've got to have some mechanism to encourage the cities themselves to put together good packages of local incentives; and it seems to me that competition between cities will tend to do this.

I feel also that if a city develops a program of local initiative, and a reduction in barriers to local development, as a plan to get Federal Enterprise Zone, but it doesn't get that Enterprise Zone, this is not wasted time. If the city of Atlanta devises a package to encourage local businesses to get into action, I don't believe they should scrap it just because they're not chosen for a Federal Enterprise Zone. It would seem to me to be something that should be put into place on a local level. I think that's very much the theme of the Enterprise Zone: local people trying to come up with some innovative package over which the Federal Enterprise Zone would be placed as a way of encouraging investment within those areas. I see it very much in keeping with the tradition of American cities, particularly in the Old West, of building on what is there, devising mechanisms that are appropriate for local conditions.

We've had a period of history in the United States and cities where attempts have been made to solve the problems from the outside, to try and provide general plans that hopefully would work everywhere. They have not worked. And the Enterprise Zone is an attempt to go back to a successful period in American history, where local communities devised the kinds of packages and local kinds of initiatives that did work.

Thank you.

Senator MATTINGLY. Thank you, Mr. Butler.

[The prepared statement of Mr. Butler follows:]

Prepared Statement of Stuart M. Butler

In any discussion of Enterprise Zone legislation, we must bear in mind the fundementals of the concept, and distinguish it from other forms of assistance to low-income, distressed neighborhoods. The Enterprise Zone approach is based on the thesis that there is considerable potential in depressed areas, and that the most effective way in which we can improve conditions within these areas is to remove barriers to business and social innovation and to create a system of incentives which will cause dormant factors of production to be utilized. Because of this emphasis on the creation of new activity from resources primarily within a neighborhood, the Enterprise Zone idea must be distinguished from numerous state and federal programs which seek to reallocate existing activity, either by the transfer of wealth from other communities into inner city neighborhoods, or by the creation of tax rates designed to alter location decisions.

It is interesting to note, in this regard, that the basic problem in depressed areas is a low birth rate of new bsinesses. Work by David Birch of MIT shows clearly that job-losses by existing firms differ very little from region to region or between growing and declining cities. Birch shows, moreover, that the greatest job generators are small businesses. He also demonstrates that movement of businesses is not the core of the differences in start-up rates between depressed and vibrant areas - relocations over even short distances are unusual. This finding of Birch has been supported by recent research conducted by the National Federation of Independent Business. NFIB found

that only 6% of new urban small firms are created by people from outside the city - only 1% by people from out of the state. As NFIB concludes, the stark differences in business formation rates cannot be blamed on movements. Business formation rates are low in depressed communities because people in the cities and neighborhoods concerned, do not tend to start firms.

In fashioning Enterprise Zone legislation, therefore, we need to concentrate on encouraging the formation of totally new firms, and especially the creation of small companies.

We must seek to achieve more than simply the creation of businesses, however. The potential of a neighborhood also consists of the ability of local people to provide creative services, fight crime, and generally to build strong organizations to bind the community together and to encourage advancement. The creation of businessmen within the community will aid this, but an Enterprise Zone must also seek to develop the "mediating structures" within the neighborhood. It must also have the effect of spreading ownership. The revival of a neighborhood involves the creation of business owners as well as jobs. Spreading ownership gives residents a stake in development and results in a flow of development benefits to them.

Studies of small business concerns and the problems of neighborhood organizations reveal that encouragement requires the elimination of barriers more than the provision of direct assistance. The complexity of local regulations, such as zoning,

building codes and occupational licensing serves to increase the cost of business, both directly and by the cost of delays. Similarly, payroll taxes and similar legislated costs increase the obstacles presented to new firms. These basic costs of doing business are a severe handicap to new firms, and it has generally been the policy of cities to increase restrictions and taxes on small concerns in an effort to provide services, while taxes on larger companies have often been abated. Similarly, we see a steady increase in regulations concerning the provision of services within the cities concerning everything from day care centers to homes for the destitute. It is becoming more difficult for informal, amateur groups to provide the kind of assistance that was once quite normal. Yet the result of these regulations has often been either ineffective 'help' or no help at all, because the cost has become prohibitive.

Enterprise Zone legislation should seek to minimize these unnecessary costs, to spur innovation in the inner cites. Since rules and local conditions vary considerably from place to place, the removal of barriers must be primarily at the local level. The role of the federal government should more properly be confined to that of requiring local governments to put together a package of changes in return for the addition of certain tax incentives within the zones.

While the local package should be open to discretion, there are certain elements that might be encouraged. The simplification of zoning and building codes would do much to encourage business

formations. A relaxation of such standards will not result in unsafe procedures and conditions if full insirance is required. What we would find is that standards would fit the conditions of the neighborhood and the activity involved in keeping with the desire of an insurance company to balance premium cost and liability. Similarly, the complete removal of zoning would free-up buildings now used for uneconomic purposes, or not used at all. The experience of Houston shows that non-zoning, combined in some cases with restrictive covenants, leads to a more appropriate use of land than zoning.

The local initiative for an Enterprise Zone should seek to encourage service provision within the zone by local organizations. The present Administration's budget changes make this necessary as well as desireable. Allowing groups to provide services within a zone can be encouraged by the removal of regulatory barriers. Cities may also contract with groups at the local level, rather than confining service provision to city employees.

Cities should also be conscious of the need to spread ownership within the zones. There is a bill before the District of Columbia Council which would require the title to publicly-owned land and buildings within an Enterprise Zone to be transfered to a neighborhood-based development organization. This would mean that asset appreciation and lease revenues would flow to the neighborhood. Such revenue could become a source of funds for neighborhood services.

The federal government could aid the process of cost reductions. The Kemp-Garcia legislation exends the provisions of the 1980 Regulatory Flexibility Act to Enterprise Zones. This would certainly help, but it might be necessary for certain regulations and restrictive laws to be changed by Congress for any significant effect to be felt. Modification of the Davis-Bacon Act within Enterprise Zones would reduce the costs of many self-help projects using federal funds, and it would also increase the use of local, unskilled labor - a benefit in itself. Similarly, the federal minimum wage could be reduced in such areas, at least for young workers. The latter suggestion is necessarily controversial, given the emotion of the minimum wage issue. Yet the dispute is really one of fact - what would the consequences be? Would a reduced wage lead to more jobs or simply lower wages for existing employees and increased turnover? Reduction of the minimum wage might thus occur only with the agreement of the zone residents - by referendum, for instance. If the neighborhood was willing to 'risk' the lower minimum, federal legislation would allow it to do so, but it would not be required.

The main thrust of federal legislation, however, should be in the realm of tax incentives, designed to encourage a flow of capital into small firms. Small companies point out that tax breaks against income are often of little value, since new firms rarely pay much tax in their early years. Even the new leaseback provision of the code seems to offer little help, since transactions costs and risk largley confines the sale of tax breaks to contracts between major companies.

Yet new, small firms claim that access to capital is a significant problem. They do not have the kind of track record necessary to obtain loans from institutional lenders, and, in depressed areas, the accumulation of personal savings is clearly limited. Federal Enterprise Zone tax policy should thus seek to provide incentives for investors to put capital, especially debt capital, into such firms. Several mechanisms might achieve this. The elimination of capital gains tax would help, and if the elimination were contingent upon the proceeds being re-invested in a zone (like the homeownership provisions of the code) it would encourage capital to be retained in the zone. Similarly, allowing investors to expense all or part of the capital within the first year would help offset risk. The revenue losses of such a change, if there was a cap to the write-off, is likely to be small, since investors interested in such a mechanism are likely to be those interested in tax shelters, and so would not be paying full tax in any case.

This combination of federal tax incentives, combined with local changes aimed at reducing cost barriers to new firms and local organizations, would be an appropriate division of responsibility within the federal sytem, laying the ground for neighborhood innovation.

Senator MATTINGLY. Mr. Vash, please proceed.

STATEMENT OF EDGAR E. VASH, LEGISLATIVE ANALYST, AMERICAN LEGISLATIVE EXCHANGE COUNCIL, WASHINGTON, D.C.

Mr. VASH. I want to thank Senator Mattingly and also Congressman Gingrich for allowing me to have the opportunity to speak here on behalf of the American Legislative Exchange Council, also known as ALEC. I do know that Senator Mattingly is a very strong, articulate, and consistent supporter of private sector solutions to economic problems; and I also thank Congressman Gingrich, who's a good friend of ALEC, and who is also equally articulate, vociferous, eloquent, and very magnanimous in his efforts to get a private sector effort to reverse what has been a public sector assault upon the inner cities.

Just hearing everyone speak this morning, I'm reminded of a story I heard about some intellectual foreigners who were traveling in Washington, D.C. They were passing the National Archives; and on the Archives there is this very big picture of a man pushing a horse; and it says underneath: "What is past is prologue." So one of the foreigners turns to the cab driver and says, "I suppose that means we're all just dust in the wind?" So the cab driver turned around, and in a very thick New York accent, said, "No, that just means you ain't seen nothing yet."

I've been talking with the people at HUD and Commerce regularly over the past 8 months on the content of that proposal; and while I'm not at liberty to comment on the latest provisions, I can say with a great deal of confidence and authority that some of the concerns about infrastructure costs, about creating bureaucracies, about leveraging investments from all levels of business, big and small, will be addressed in that legislation.

That having been said, let me just make four preliminary observations for the record about Enterprise Zones.

First, Enterprise Zones are a complete reversal of the trickle-down theory which has characterized urban renewal over the past three or four decades. Trickle-down theory says that you give money, allow businessmen to make very large profits, and hope that those profits will be plowed back into investments in appropriating jobs, taking people off welfare, and reversing the high crime-welfare cycle of the inner cities.

While I don't have anything against profits, because I recognize that businessmen do, indeed, reinvest those profits, I think with Enterprise Zones we're trying to go beyond just business investment. What we're trying to do is get economic activity from all sectors of the economy, not just businessmen; but also commitments on the part of local government; and also a commitment on the part of the resident. The administration's proposal is going to have a very strong incentive to get the residents involved in the area; and while I can't comment on that provision, I can tell you some of the examples of what is in Kentucky Enterprise Zone legislation, and also in the California bill.

The second observation I would make is that Enterprise Zones correct the economic disparities that seem to characterize the urban

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areas of our country. There are different types of urban decay, as all of you know. Some that has to do with just housing, some that is strictly commercial or industrial in nature, and other often are characterized by huge land tracts that are owned by the public, but which aren't being put to private sector use. Enterprise Zone programs would allow us to correct that disparity by leveraging economic activity in stagnant areas.

The third observation is that the Enterprise Zone program would give residents of these depressed areas the unique opportunity to control the growth of their neighborhoods. Right now, because of the way that the tax codes are written, and also because of certain regulations, residents don't have that opportunity. There are some small changes which can give residents of the neighborhoods opportunities to control their neighborhood.

The fourth and final observation is simply that Enterprise Zone does allow us the opportunity to control the excessive cost of welfare. By taking people out of food stamps, unemployment insurance, and the 180 other Federal welfare programs, you are reducing the welfare costs and actually giving a shot in the arm to the government treasury, because you're creating a new breed of taxpayers.

Those four observations being said, I would like to summarize what the States have been doing.

As both of you are aware, there has been a great deal of State activity on Enterprise Zone legislation. I'm very proud to say that an ALEC board member, Senator Donald Totten of Illinois, is the first person in the country to even introduce Enterprise Zone program in statutory form. He introduced it in the spring of 1979, a few months before Jack Kemp and Bob Garcia introduced their first bill. So for the record, the States were actually first ones to take the initiative.

Since Senator Totten introduced that bill, there have been nine other bills that have been enacted into law in seven other States, the most recent being the State of Ohio, which passed something during the first week of November. The grand total is 82 versions of State Enterprise Zone legislation that I personally have seen. To my knowledge, there are going to be 15 Enterprise Zone bills introduced this year. There will be three introduced in California very shortly. I believe the Kentucky bill was introduced last week. I think they're trying to get a majority of both chambers to cosponsor that. There's going to be two bills introduced in New York. There's going to be one bill introduced in Massachusetts. There's already been a bill to create a study commission over in the State of Pennsylvania. The State of Indiana set up an Enterprise Zone commission, which is due to make its recommendations any month now. It's headed by the Lt. Gov. John Muntz of Indiana. And there's also some new legislation by Senator Totten of Illinois.

The content of those State programs basically covers four points. One point dealing with capital formation, one point dealing with regulatory relief, another point dealing with employer and employee tax relief, and a final point giving incentives for residential participation.

Now, what have the States done with capital formation? I think what some of the States are trying to do is a very good example of what you can do at the Federal level. In the California bill there is an

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effort to repeal entirely the interest income which banks make on loans to depressed area business. The reason that's important is because in the Kemp-Garcia bill, the interest income exclusion is only 50 percent. In other words, if a bank or savings and loan institution gives money to a depressed area business, they don't have to count 50 percent of the income they make on the interest toward their tax liability.

Senator MATTINGLY. Might I just interrupt you just for a second? I know Mr. Ward has to leave, and I just wanted to ask him one question.

On the proposed legislation, you made the comment that you wanted to comment on it. I would rather, if you could, have your comments on it, especially in those areas of the four points that you brought up, one, the list of the necessary components that you were talking about; and, two, the area that you were talking about maximizing the use of the passer of benefits. If you could send that to us right away, I think both Congressman Gingrich and I would like to have the benefit of your views during consideration of the legislation.

Mr. WARD. I'd be happy to do so.

Senator MATTINGLY. And take a look at it, because I think this is probably going to move at a faster pace than the normal bureaucratic activity.

Mr. WARD. I'd be delighted to do so. I'm sorry I have to leave. I didn't realize Dan Sweat and Richard Guthman were going to be so-long-winded, so I didn't allow enough time; so I'm sorry, I have to leave. [Laughter.]

Senator MATTINGLY. Thank you very much. Excuse me.

Mr. VASH. That's quite all right. Anything for private sector renewal, here.

Let me get into regulatory relief very quickly. What I want to do is, so I get my remarks in perspective, summarize what the States have done. Then what I'm going to do is make a point-by-point analysis of how you can beef up the Federal bill to accommodate what the States are doing.

To cite an example of regulatory relief, let me go back, again, to the California bill, and I cite this with pride, because that's one of the 15 Enterprise Zone bills on which the American Legislative Exchange Council has had direct influence; and just to give you an idea of the scope of it. I'll just read off the different regulations they're dealing with.

They would suspend all price laws. They would suspend price controls that deal with energy. They would suspend all building codes; suspend zoning laws, provided the zoning law does not deal with the municipal service. They'd suspend general development plans—that's a unique California requirement, that they have to submit it to three different departments. They would suspend that and allow them to just submit the building plans just to one department. They would suspend minimum wage laws. They would suspend construction wage laws. They would suspend the Little-Davis-Bacon Act. They would eliminate rent controls. They would eliminate license fees. They would repeal all application and permit requirements. They would substitute insurance coverage for building codes. They would set utility rates at average system costs. They would set up a one-stop permitting shop for Enterprise Zones.

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Those are just some of the provisions. They also have provisions requiring the Government to sell all public land—regardless of whether it's vacant or being used—sold at public auction, allow the local community to get the equity that's gained from that. It also allows local governments to set up a borough system of government to manage the Enterprise Zone area. Those are examples of how you can get comprehensive regulatory relief.

The State of Illinois, of course, which was vetoed by Governor Thompson and almost was overridden by the legislature, provides more examples of comprehensive regulatory relief; but some of the reliefs were particularly objectionable to the labor union in the State and, unfortunately, didn't go through. Those dealt not only with the wage laws and the housing laws that I cited in California, but it also dealt with certain environmental and safety codes. That was shot down by labor.

The third aspect of State programs is comprehensive employer and employee tax credits. Basically, this parallels what's in the Kemp-Garcia bill. A certain percentage of the credit they can take off their income tax liability, or a certain percentage of the credit they can take off of franchise tax liability.

I'd like to cite something that Florida is doing, because this is a very good example for what you folks might be trying to do here in Georgia. In the Florida State constitution there is a prohibition on making differentials in property tax rates. To circumvent the problem, they allowed businesses to add up all their property tax liability and deduct that straight from their income tax liability. That still doesn't cost the State, because this is a business which didn't exist before, and so he's just deducting it from his income tax liability; but on the other hand, he still gets the property tax relief without affecting the property tax revenues that the local communities are entitled to expect.

And the last aspect of State programs is the incentive for residential participation. The best example is in the Kentucky bill. What that Kentucky bill does is something I think you ought to consider at the Federal level. It requires that all public property be sold at auction, like it is in the California bill and like it is in the Illinois bill. What makes this Kentucky bill unique is it allows the residents of the areas to get the equity that comes from selling all that public property. The residents of the area can thereby take that equity and plow that back in for whaever infrastructure improvements are needed, whether it's street repairs, street maintenance, or even if it's just to finance a new construction project for a transit district. That way, the local community isn't required to pay out more money for new fire protection or police protection or for new sewer maintenance; because the money is there from the equity they got from selling public buildings at auction.

So, all that having been said, let me very quickly go point-by-point down what I think should be made to improve the Federal bill.

The first set of recommendations are for capital formation. No. 1, I would increase the 50-percent exclusion on interest income to 100 percent, on the grounds that no bank or savings and loan institution worth its salt is going to make a loan to an area where there's high crime and low growth, even if you're saying half of its income isn't going to be counted. My recommendation, from talking with bankers and other

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savings and loan persons across the country, is that the entire tax on the interest income ought to be repealed.

The second option: Allow immediate 100 percent investment tax credit for individuals that are taking interest in the zone. To give credit where it's due, this is mainly an idea of Stuart Butler and Paul Pryde. You would allow residents of the area—not necessarily business persons or employers, but residents of the area—to take all of the investments they make in a business in the zone and deduct it immediately, 100 percent, on the grounds that, for the small businesses and the Mom and Pop Shops you're trying to stimulate, the individuals will need that sort of equity; but since, technically, they're not employers, they wouldn't be eligible for it.

The third option: Increase the flexibility of bad debt loss reserves, so that the banks can write off more of their loans as a risky business. You can make the increase in the flexibility of bad debt loss reserves, subject to a recapture provision. In other words, if they estimated that there was too much going to be lost from lending to the depressed-area business, then they would have to pay the tax on that. You could allow another suspension if the bank takes the money that it overestimated and reinvests it into another Enterprise Zones project.

A fourth and final option is to retarget industrial development bonds to give zone area businesses priority access; and I believe I can say that's in the administration bill, because I think that that has been made public in the Baltimore Sun article.

The second set of options dealing with regulatory relief: One, I would suggest that you make an accelerated deregulation of certain price controls in an Enterprise Zone area. There are prominent energy producers in this country that have already demonstrated a willingness to authorize reduced rates for that Enterprise Zone area if they get the area designated as an Enterprise Zone. As an empirical example of that, I would cite the electric utility plant that's over in the borders of the Warren Sherman area in Toledo, Ohio; and I will also cite Consolidated Edison in New York, which made that public commitment.

As another option for regulatory relief, I would allow, as I said earlier, neighborhoods to have equity gain from the sale of public property.

Third, I would allow discretionary deregulation by executive fiat. In other words, if the business community and the labor community and the local officials and the State officials all got together and decided certain Federal regulations were inappropriate to the depressed area, I would allow them to make an application to the appropriate Federal executive department to have a discretionary repeal, just for that one area. If businesses want that repeal for their particular area, they have to get into a compact with labor, they have to get into a compact with local officials and State officials; and at all levels of State, local, and Federal Government there is going to be pressure, grassroots pressure, labor pressure, concerning the proposed repeal. That way, there are still checks and balances; and if the Federal Government decides to take away that regulation, it's certainly done through a due process.

The fourth and final recommendation—and this is to respectfully disagree with Congressman Gingrich—is to allow competitive bidding. Put a cap on the number of zones. There are two good reasons I would

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cite for doing that. No. 1: You would make the areas that are designated as Enterprise Zones unique. The State of Louisiana passed an Enterprise Zone law which states as its purpose that it wants to declare 25 percent of the State as an Enterprise Zone. The problem you get with something like that is that you don't make those communities any more unique than the other communities that are now subject to distressed community statutes. Every State in the Union has a distressed community statute; every State in the Union allows certain tax credits, tax abatements, for investments made in the distressed community. So if you designate Enterprise Zones as any community which meets these requirements, you're not going to make them any more distinct. If there's only one Enterprise Zone that's declared, say, in the State of Ohio, then businessmen are more likely to take note of that one area; but if you have it in Toledo, Cleveland, Columbus, and four other cities, there's nothing that makes one area unique.

The second reason why I would allow competitive bidding is because, quite frankly, I think it gives the Federal Government the opportunity to leverage private local commitments to the Enterprise Zone package. If anybody could automatically obtain a designation, they're not going to be willing to privatize municipal services, abate property taxes, or, in some of the few selected cases, abate the sales tax that the city is authorized to levy. But if you required zone applicants to compete with other cities, that gives them the incentive to put together more options. Quite frankly, I think we're all aware that there are certain libertarian firebrands over in HUD; and I'm sure everyone's aware that when you apply for an Enterprise Zone designation, HUD officials are going to be looking particularly for these comprehensive incentives; but if there's no competitive bidding requirement, a cap on the number of zones is no incentive for someone to put together that contract.

I'll very quickly go over my final set of recommendations that deals with employee and employer tax credits.

No. 1, I would delete the quota requirement, on the grounds that by requiring that a business hire a percentage of disadvantaged workers in a zone, you're ordering businesses to use what may be an unskilled labor pool. If an employer knows he has to dip into that unskilled labor pool, and if it's a labor-intensive industry where there's a lot of parts and equipment, he may not want to make the investment because he thinks the people aren't going to run the business right.

What I would do is authorize a sizable tax credit for hiring disadvantaged workers. Thereby you're not requiring the business to hire the disadvantaged workers; but if you give him, say, a 50-percent income tax credit for each CETA-eligible employee he hires, the employer has a tremendous incentive to go out and hire that person.

Now, if the quotas can't be deleted for political reasons or partisan reasons or whatever, I would authorize a job voucher system for the area so that you can allow retraining of the individual.

Now, my last recommendation for employee and employer tax credit is that both you, Senator Mattingly, and you, Congressman Gingrich, consider a tax credit for employers that contribute to the day care costs of employees. Here's something unique that Ohio is doing right now in their Enterprise Zone package. They are allowing employers to

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deduct up to 5 percent or 10 percent—I think it might be 10 percent—of the amount of money he contributes into that local day care center. Most inner city areas have a large concentration of families; and unless they have a way to take care of those families, they may not be willing to go into the Enterprise Zone.

I think perhaps even the most important part of my testimony is not the point-by-point recommendations of what could be in there, but identifying certain problem areas for you. One of the most obvious is the eligibility criteria. I would emphatically recommend that both of you try to make that eligibility criteria as broad as possible. You could rely on UDAG criteria as a standard, but don't require an arbitrary number of people who are unemployed in the area or a specific poverty index. The eligibility criteria in all the State bills differ dramatically. Some of them have a minimum population requirement of 8,000 people. So what happens is, you may have a geographically large State Enterprise Zone, but if the Federal Government wants to designate it, they can only designate a portion of that. I think you may get some cutthroat rivalry going on in that area, or perhaps attach some stigma to one shop versus the other on the outer ring of the doughnut.

The second problem is infrastructure improvements. Unless you have a way to give residents equity—and that was my recommendation about selling public property—you're going to have inordinate infrastructure costs. In an area that starts to develop, automatically you need new police protection, fire protection, sewer maintenance, and street repair.

The third problem deals with privatization. I think this is also public out of the Baltimore Sun article, that the administration is going to recommend that certain communities privatize municipal services. You're telling local communities, when they put together their Enterprise Zone package, to take the heat from municipal labor unions, and to recommend in their package that they sell, say, a sanitation service or refuse collection. Now, I'm in favor of that. I think it's more economical and cost-effective. But you're telling communities to go out on a limb, and there's no guarantee that they're going to get rewarded for going out on that limb. Because there's a cap on the number of zones, theres' no guarantee that they'll get that designation. But that may be a political deference you may want to make to the communities. You may want to make privatization an option instead of a requirement.

The fourth problem is that dealing with payroll costs. There is a tremendous temptation on the part of people I've been talking with on the Hill and in the administration to allow a straight, across-the-board reduction in the unemployment compensation tax that's levied on businesses in a depressed area.

Such a change would have a terrible impact on the unemployment insurance fund, because there are still 16 States that owe $5.5 billion to the Federal Government, due to insolvent trust funds.

The problem with the unemployment compensation system is not totally and directly related to unemployment compensation taxes. Some of it has to do with the way duration benefits are computed. Other of them have to do with the way eligibility requirements are written. Maybe they allow unemployment comp for voluntary quits, or maybe they don't require a waiting week. But unemployment compensat on is

entirely a State-run system. A lot of problems can be solved simply by reforming nontax aspects of unemployment compensation laws.

The last problem I have with the Federal Enterprise Zone bill is that there may be a temptation—I notice this on the part of Wes Watkins of Oklahoma—to authorize new Government loan and subsidy programs. That's contrary to the purpose of Enterprise Zones. Enterprise Zones should be a private sector effort to leverage private sector commitments to the area; and by authorizing new loan programs, you're going to create the sort of bureaucracy to which Mr. Ward was alluding earlier. You don't need a bureaucracy to implement Enterprise Zones but you will get a bureaucracy if you authorize new loan programs; and just in passing, I would note that the foreign trade zone program has been in existence for almost 40 years now, and administers 68 different foreign trade zones. It's a very complicated, complex system; and if you add up all the secretaries, all the caseworkers, all the directors who administer the foreign trade zone program, there's only four people that run that program in the Department of Commerce. I think that's a very good example of how you can have a very low overhead for Enterprise Zone package.

So I would note, in conclusion, that Enterprise Zone legislation reverses the trickle-down theory, and reverses the notion that urban decay is a socioeconomic fact of life. Enterprise Zone stands as a very brilliant reminder that the private sector can develop depressed areas of our community if they're only given a chance.

Senator MATTINGLY. Thank you, Mr. Vash. For a man who forgot his prepared statement, you did very well.

[A brief recess was taken.]

Senator MATTINGLY. We can go ahead and begin with Jim Baker. Mr. Baker, please proceed.

STATEMENT OF JAMES BAKER, COOPERS & LYBRAND, ATLANTA, GA.

Mr. BAKER. I'll make it brief, Senator. Let me just touch on two or three points for emphasis.

The legislation should certainly not ignore the role of small business in economic revitalization; but I would encourage you to not exclude business, and particularly business that might relocate from other areas. I think that has to be a viable option, relative to the employment of the chronic unemployed we're seeking.

Another point that didn't quite come out as strong as I'd like it is—and I hope it's focused on—that the incentives, particularly the tax incentives in the Enterprise Zone, must have a substantial differential impact over the economic ERTA Act, the 1981 ERTA Act; because the Economic Property Tax Act of 1981 provides substantial incentive for investments aside from the Enterprise Zone. So I think you've got to focus on additional incentives besides that.

I'd like to return to an issue, because I think it's important. Incentives should be directed to a cost reduction and improved cash flow as opposed to bottom-line tax reduction. If you're going to deal with small businesses, the name of the game is to try and keep them viable long enough so that they build up working capital and can survive. I go as far as even suggesting, in my opening remarks, consider refund-

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ing unused tax credits. I didn't limit those to payroll taxes, but that could be a version of it; or perhaps allowing the sale of unused tax credits to other EZ businesses.

I think that there has been some fascination with attracting high-technology-oriented companies to these areas. That will not work. You will not attract high-technology companies into the Enterprise Zones, in my opinion.

And finally, one other thought that's come out of particularly my exposure here in Atlanta in helping with the city council: If there can be some flexibility in adapting Enterprise Zones to accommodate business growth and its impact on facility and space needs within the Enterprise Zone, it's important.

Even if you get cottage industries and they grow, and let's say they occupy rehab structures in the Enterprise Zone, some will tend to be successful, hopefully, and they'll become medium size. Maybe there's still hope in current distressed areas of our cities that you might go into a larger facility and rehab it; but at a certain point those few that become ultimately successful, with larger and larger employment, what is their option except to move on out to new industrial development sites and areas?

If there can be some flexibility where some growth, through that evolutionary process, could be accommodated, you'd stand a better chance of having, for example, in your very concentrated and perhaps run-down areas of our cities, some way of retaining even the successful ones and not forcing them to move because they don't have the right infrastructure. If there could be some flexibility in the bill, I think it would be helpful.

Let me just conclude by saying: I focus very strongly on just what I like to think is maybe a pretty narrow focus, and I'm not interested in social issues, emphasizing one group over another. To me, either the enticement or creation of labor-intensive businesses in distressed areas of cities which lead to job creation is the mission; and I'm not interested in other kinds of definitions. I think that's the thrust. I don't get nearly as hampered in my thinking about relocation of a business that might move out to the perimeter of Atlanta, by moving down to the core of Atlanta, as I think the economic impact is worth it, at least for some period of time.

Thank you.

Senator MATTINGLY. Thank you, Mr. Baker.

Mr. Legg, please proceed.

STATEMENT OF WILLIAM LEGG, DIRECTOR, RESEARCH CENTER FOR REAL ESTATE AND LAND ECONOMICS, GEORGIA STATE UNIVERSITY, ATLANTA, GA.

Mr. LEGG. Yes. My name is William Legg, and I'm director of the Research Center for Real Estate and Land Economics at Georgia State University; and I appreciate the opportunity to be here today.

I am going to move away from a prepared statement, given the three prior to mine, in which much of the same material has been covered. There are a few points that I've thought about as the hearings have proceeded, and I would like to, perhaps, bring up.

The Urban Enterprise Zone concept is an indication of the change in attitude toward poverty and commerce; and its primary argument

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relies on what economists call the Infant Industry Argument, with all its strengths and its weaknesses; but the argument is arising because of what I perceive to be a necessity to change direction of approach to poverty and unemployment in inner cities.

This problem currently accounts for a large portion of Federal, State, and local budgets, which are currently strained to limits, after 40 years of misuse of what is termed Keynesian economic policy. By the way, Keynesian policy requires in tops of the cycles to generate surpluses in economics, in the financial aspects of the Treasury, rather than deficits; and we have done that. That's what I referred to as the misuse.

Currently, every attempt must be made to find alternatives to Government use of revenues through tax incentives and other such programs, as have been discussed here. We can probably tolerate very little more in the increase in transfer payments currently required by this economy.

We all know the impact of the deficits now on particularly the private sector, what we refer to as crowding out; and any further increase in deficits, much further increase in the growth of the Government at this point in time, is, in my estimation, going to be disastrous for the economy; and it's really a question as to whether, after the last 40 years, it can be turned around; and, certainly, it's not going to be turned around rapidly.

Now, the Urban Enterprise Zone proposal appears to encourage the development of the private sector and the development of local industry in particular through the use of incentives more than transfer payments. Moreover it represents in its implementation a move toward fostering an attitude of independence rather than dependence for business owners as well as employees; and I've noticed in the United States may cities—as an aside, many business people—like to talk about free enterprise; but as soon as one of the currently existing Federal programs is threatened that affects them, they're as much the first ones to scream as any minority group, or anyone else. So I aim my comments to those groups also.

There needs to be this furtherance of an independence, or the feeling of independence, and the movement toward independence, rather than the movement toward dependence on Government that we've seen over the last 30 years; and I really think that the Urban Enterprise Zone concept can play a major role in turning around the national economy, and, more importantly, moving the participants away from the current policies creating dependence and increasingly limiting individual freedom with increasing Government activity—with the company increasing Government activity.

Thank you.

Senator MATTINGLY. Thank you, Mr. Legg.

Mr. Shinhoster, who is the regional director for the NAACP, is next.

STATEMENT OF EARL SHINHOSTER, REGIONAL DIRECTOR, NAACP, ATLANTA, GA.

Mr. SHINHOSTER. Thank you, Mr. Chairman.

Senator MATTINGLY. I'd also like to comment that Mayor McIntyre walked in. We're happy to have you here.

Mr. SHINHOSTER. Thank you, Senator. The NAACP is very happy to have this opportunity to appear before this subcommittee today and share with you in summary fashion our overall observations and concerns about the current proposals to create Urban Enterprise Zones within many of America's cities. This issue of Urban Enterprise Zones and overall urban revitalization strategies has been addressed by our national organization. In April of this year, our board chairman, Margaret Woods Wilson, and our executive director, Benjamin L. Hooks, submitted a report, a very detailed report, to the President and members of the Congress, entitled "NAACP Addresses the President and the Congress With Alternative Policies in the Public Interest for Economic Growth, Unemployment, Inflation, and Inner Cities."

Now, this report did examine in some detail the relative impact of the Reagan administration's policies on the overall economic well-being of black and minority citizens in this country. Since the concept of Urban Enterprise Zones was introduced as a method of addressing and attempting to solve some of the very complex problems associated with the revitalization of the Nation's inner cities and reducing high unemployment by overall stimulation of public and private sector initiatives in terms of developing business ventures, the NAACP has taken a very active part in that overall debate. We have prepared, and will submit for the subcommittee's consideration, a statement that will pretty much summarize our overall concerns in this area. Many of the observations which we have made have been addressed by previous speakers, and we won't prolong the time by attempting to go over any of those at this particular time. However, the concept of an Urban Enterprise Zone that is to enhance public and private sector involvement in inner city development may or may not be desirable; however, as we look at, as an example, ongoing experiences of private-public sector initiatives that have been undertaken, as an example, in Miami, Fla., Dade County, as a result of or in the wake of the recent urban arrests and riots in Miami of last year, I think it is a fitting starting point to indicate to us that more than just concessions to business is needed and necessary if we are to really be successful in achieving any semblance of revitalization of our inner cities.

Problems of urban revitalization and social decline, we feel, must be an active concern of Government. If the business sector is to be given a larger role in this area, they must exercise social responsibility, as well as pursue economic results. The Urban Enterprise Zone concept must not become a haven for cheap labor, or the utilization of business and employment practices that fail to comply with existing nondiscrimination or equal opportunity laws and regulations.

In overall summary, the NAACP recognizes the tremendous social and economic costs associated with high unemployment and substandard housing in the inner cities. Moreover, the approaches undertaken to combat these problems in the 1980's must involve increased private sector participation and involvement, as well as a renewed Federal commitment to see that all aspects and all segments of the community and the overall society that is affected are, in fact, allowed the full benefit of any urban revitalization effort which is undertaken; and I'll stop at this point and be happy to address whatever questions that might come.

Senator MATTINGLY. Thank you. Mayor McIntyre, it is good to have you this morning. Please proceed as you wish.

STATEMENT OF HON. ED McINTYRE, MAYOR, AUGUSTA, GA.

Mayor MCINTYRE. Thank you very much, Senator.

Let me say that, being the new boy on the block, and having been a mayor only 1 week, it was very difficult for me to get away; and, quite naturally, we were late this morning getting in, especially with some problems we had to address before leaving Augusta.

By being a new mayor, and new in municipal government, I think my comments would be observational primarily. I do know that, in the city of Augusta, we've had a reduction in population in the last 20 years of probably 20,000 people. There has been a deterioration in our downtown areas. There has been no change, primarily, in the inner city housing situation for many, many years. I think that what we have is that we had the 235 program, and it was a very good one in Augusta and Richmond County; but it did nothing for the inner city housing. It just moved those people who had the initiative to buy a house outside of the city, and they were replaced in the city by somebody who could not afford to buy a house on the 235 plan, and so forth. So we still have dilapidated homes in the inner city, with nobody addressing this problem.

My entire campaign was surrounded by marriage between the private sector and our Government. I still think, at this stage of the history, that that's the best approach. I think we've tried many approaches up to this point. We've tried, earlier in the stages of this country, where the private sector did everything; and then it got to the point that the private sector was not doing very much, and the Government was relied on to fill the void of doing just about everything for everybody. That system worked to a point. It hasn't worked directly for everyone involved.

I think that, at this juncture of our history, I feel that, No. 1, the Government cannot drastically cut away from all the programs that it's been a part of for the past 30 years in a growing element. We cannot instantly cut away and make adjustments to deal with the problems that we have in the Government; so I think a more gradual approach by the Government, and a gradual approach by the private sector coming back into the mainstream of economic development, the mainstream of social problems, is probably a better approach then the approach that I see on the horizon right now.

I recognize that our economy is in bad shape; but I don't think that we can cure all those ills that we've created since the 1930's in revitalization of our Government in 2 or 3 years. I would hope that the Government still would participate in many of the economic development programs of our cities and inner cities, with a combination of infusion of the private sector.

To give you an example of this, under our Community Block Grant funds in the last year in the city of Augusta, we gave some $250,000 in grants and low-interest loans and deferred payment to those persons who are living in and own houses at certain income levels. I think that's a good approach. What we're doing this year is doubling that

amount to half a million. We have some 150 to 200 applicants who are waiting to participate in that program. This way, we are doing something to revitalize the housing in the inner city, rather than to start new programs and build new houses, and leave those dilapidated home alone that are in the inner city.

Just last week, ironically. I recommended to council that we try to look for a way through our State legislators to provide—and I don't know the formula, and we're studying it now; but any new business that comes to downtown Augusta that spends $50,000, for an example, and employs 10 people or more, that we would give a tax incentive for 1, 2, or 3 years for that business to encourage it to come downtown, to revitalize our downtown Augusta.

We have in Augusta a riverfront that's never been touched. We intend to call in consultants to give us a plan to revitalize downtown by coupling it with a development of our riverfront. I think that will work; but we still need the combination, I think, very strongly, of participation from government, as well as participation from the private sector, and a joint venture attitude in improving the city of Augusta's plighted areas, and to give some impetus to those buildings downtown that are without businesses.

Senator MATTINGLY. Thank you, Mayor.

Before I get to State Representative David Scott, I would like to make one comment. The Government is not going to cut away any of the existing programs, but the Enterprise Zone will be designed to complement the current programs that we have.

Mr. Scott, would you proceed now, please?

STATEMENT OF HON. DAVID SCOTT, A STATE REPRESENTATIVE FROM THE STATE OF GEORGIA

Mr. SCOTT. Thank you, Senator.

I'll state at the outset, that I'm here to more or less listen and learn some things about this legislation, and also to offer my own interest in developing some kind of economic legislative vehicle in the State of Georgia to address this problem of what to do in the private sector and at the State level, to take the challenge that President Ronald Reagan has issued to these two entities to respond to these budget cuts.

First of all, let me take the opportunity to say I am certainly opposed to President Ronald Reagan's budget cuts. However, I would like to, more or less, express an idea and a concept that I have worked with in the city of Atlanta for the last, maybe 5 or 6 years, on the south side of the city, to stimulate economic development, to see if that sort of thing could fit into this concept of Urban Enterprise Zone legislation.

I was able to pull together major corporations within the south side—and for those who might not know, it is perhaps one of the more severely poverty-stricken areas of town; but, yet, it still has the heaviest concentration of business and economic activity than anywhere else; and we tried to pull together the community interest, the educational and vocational training programs in the community. In other words, the legitimate feeder systems for getting people out into the work force and the employment market surrounding it, out of which

we were able to generate some activity in the area of housing and tearing down abandoned housing, getting the private sector to provide work internships at jobs for ghetto youngsters on the south side, and the establishment of a free private enterprise program on the campus of Carver High School on the south side.

This year Senator Julian Bond and I had a very interesting conversation, in which we began to explore just what the meaning of this Enterprise Zone legislation could mean for our city and our State. So it is within this spirit that I come before this committee to express my interest and my work and a successful model that perhaps could apply and could serve maybe as a catalyst to form some sort of legislation.

One other point I want to mention is that some of the major corporations in the city of Atlanta have expressed to me an interest in working to develop with the State legislators an economic development program that will provide a proper kind of entree of the private sector in working cohesively with the State to address this economic question. So we do have something going on in the city that I have been involved with, and there is some interest in legislation over at the State capital, and I plan to be intimately involved in these, and I believe that there has been some interest at the State level to address this question, but not enough; and perhaps from this meeting here, maybe you all can give me some directions as to what we at the State level might think of doing and how it could work hand in glove with you, for example, Senator Mattingly, would be doing at the Federal level.

Senator MATTINGLY. I think, to answer what you can do, I believe Mr. Vash could give you a lot of information from what's being done in the other States. It probably wouldn't be a bad idea if we distribuated this material to the other State legislators in Georgia. They haven't taken on the concept of Enterprise Zones in Georgia, as some of the other States that you've mentioned.

Mr. Shinhoster, in our first meeting, there was a lot of discussion about training programs. What does the NAACP suggest to improve some of the employment opportunities for inner city people?

Mr. SHINHOSTER. Senator, I think that, particularly in this overall discussion of Enterprise Zones—and this does, too, impact on present budget considerations—training is going to be absolutely essential in any discussion of the Enterprise Zone concept, given primarily the fact that a vast number of people within these targeted areas, wherever they might be in inner cities, are persons who are, to a large extent, unskilled, untrained, but people who are trainable. Therefore, I believe it's going to have to be some kind of initiative, perhaps on the part of the Government, to fund training programs as in the CETA-type training program, the funding for many of which have been cut presently; but I think this is going to have to be one of the main areas. Incentives to businesses, which would, in fact, as an overall operational plan within their own startup, develop programs that deal with human resource development or training as a part of their overall business plan, could be one approach, with certain kinds of government input in terms of funding or other kinds of incentives to them, might very well go a long way to supplement or add to the kind of training mechanisms that could very well take place.

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Second, while it is true, I think, that, in large measure, small businesses employ—and we've heard the previous panel, some of the panelists state, small businesses do, in fact, provide much of the employment opportunities for low-income people in communities; that, given this overall situation, something is going to have to be done to insure the continuing viability of small businesses, particularly small minority businesses, who might be affected by cash flow problems, startup problems, managerial problems, and these kinds of things. So, then, those existing structures which should impact on increasing cash flow, increasing management, increasing the overall viability of that small business enterprise, has to be put into place or continued, whether it's by existing Federal programs, or whether it's due to human resource management programs developed by that particular business in the zone and they get some kind of incentive, be it a tax cut or a direct subsidy, those are the kinds of initiatives that are going to have to be—one of the kinds of approaches we think is going to have to be made.

Senator MATTINGLY. But you must consider also the part of the economic recovery plan that's already been put in place that will give some benefits to those businesses currently there. I think Mr. Ward spoke out about trying to keep the small businesses that we have right now healthy?

Mr. SHINHOSTER. Yes. If the existing programs—and, again, the cutbacks, as are going to affect those existing programs, which would, in fact, impact on minority business developments, notwithstanding freeing the Enterprise Zone concept. So we're going to have to do something with shoring up the existing programs that would impact, because even now perhaps those existing Federal programs designed to strengthen minority and small businesses are not fully capable of doing the job that they are, in fact, intended to do. So unless we do something to specifically target and to direct, then I don't believe that those minority and small businesses will get the kind of assistance from existing programs that will enable them to be efficient managerially, and the cash flow, and things of that nature.

Senator MATTINGLY. I'd like to have Mr. Butler to respond to that; but, my personal feeling is the best job training in the world is a job.

Mr. SHINHOSTER. That's right.

Senator MATTINGLY. I would like for you all to comment, as we used to call the service, OJT, or on-the-job training, and the subject which will eventually come up, that has not really been covered, the minimum wage. Should that be changed for these zones?

Mr. BUTLER. Maybe you'd like to comment on that.

Mr. SHINHOSTER. Well, I sort of made that—we just don't believe that an Urban Enterprise Zone should be a haven for cheap labor. That is, current minimum wage laws, we think, are sufficient, and they should not be repealed at the present time. We must keep in mind that, while a job is important to gain the kind of experience and wherewithal that some people might need, a job is also important to sustain basic life functions; and in all too many instances, most people work in order to earn enough moneys to take care of their basic needs. So if we were to create a situation in which persons were not able to find jobs that can pay them decent, livable wages, then that may very well

serve as a disincentive to work, thereby requiring the Government to compensate in the form of increased welfare dependency and things of that nature.

So we would certainly not be in favor of a reduced minimum wage that might have a negative effect rather than a positive effect.

Senator MATTINGLY. Thank you.

Mr. BUTLER. I always find it very disturbing to hear these kinds of remarks about the minimum wage; because they do seem to run so counter to the evidence that's available in the field, and also the opinions of minority business owners. It's very clear that the minimum wage has the effect of pricing people out of the market; and if you look at the statistics on unemployment, particularly among minority youths, this is reflected very strongly.

Now, the idea of turning Enterprise Zones into havens for cheap labor is an alternative way of saying, "Let us create jobs for people who have low skills and who will necessarily be earning lower incomes at the initial period of their employment." In other words, you can treat the same condition in a perjorative way, or see it as a possibility for opportunity.

But I think there is another issue relating to the minimum wage, and that is the problem that many people face of leaving welfare for a job which is commensurate with their skills, where the payment is low, whether or not lower than minimum wage. We have a system in this country now where people who leave welfare for low-paying jobs often face far higher effective rates of tax than people at the very highest end of the income level. Because they have to forgo welfare benefits, they often find their rents are increased as a result of their new income, and so forth. So it seems to me that not only is the minimum wage an issue of very great importance, but so is the interplay between low wages and the welfare system.

As far as the training is concerned, I agree that the best training is a job; and I think that small businesses have an added advantage of being of a type that tend to become more sophisticated as they grow; so that somebody may well start in a small business as an employee with very basic tasks, but he has an opportunity to grow with the firm. Also in small businesses, versatility tends to be much more important than highly specialized training; so we find that the kinds of training necessary in small businesses are not quite the same kinds of sophisticated techniques as required for larger businesses.

Finally, I think that training programs may well be better if they come from groups like neighborhood organizations working with the businesses concerned, where the kind of training that takes place is much more related to the conditions within the area, and the people providing the training have rather more weight, if you like, with the people being trained. So I think that the training is something that is related to the kind of business involved; and it is something where the initiative should come very much from the local organizations working with businesses, rather than from a sort of reincarnation of the CETA program, which has not been of great benefit to the inner city youth if the statistics are anything to go by.

Mayor MCINTYRE. Sir, a question or observation for the gentleman. I think I understood you to say that small businesses are being priced

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out of the market; and as a result, minorities are not being hired?

Mr. BUTLER. It's not so much that small businesses are being priced out of the market, although that is partly true. It's that, if you prescribe a specific level of payment that must be made, then anybody that cannot contribute that value of goods and services is not going to be hired. And the problem with minimum wage is——

Mayor MCINTYRE. My followup question on that is: Is the percentage of businesses going out of business today far greater than they were 10 years ago, or 20 years ago; and if so, are those businesses that are going out of business, are those the ones that primarily hire minorities?

Mr. BUTLER. The biggest problem with business is inner city areas is not the rate at which they're going out of business, so much as the very low startup rate of businesses. If you look at the failure rate, the closure rate, of businesses in somewhere like the Bronx, or certainly the northeastern cities generally, it tends to be lower than is the case in Houston and the Southwest. The problem is that people do not feel that it's worthwhile taking the risk to go into business in the inner cities.

The argument that the problem is the failure rate, does not fit the evidence that we have available. So what we have to do, in other words, is to create a climate where people are prepared to take the risk of going into business, and concentrate only on meeting the problems that initial risk taker faces, rather than the person who is in business. We shouldn't ignore the person who is in business, but if you're going to choose between one or the other, get the person who's got the idea into business rather than try to make the other person who's already in business grow a little bit faster. If you want jobs, the new entrepreneur is the person to go for.

Senator MATTINGLY. Yes?

Mr. LEGG. A couple of comments on this concept of minimum wage: I can understand your thoughts. However, in many instances, in small business in particular, and in small manufacturing firms, the unskilled laborer is not worth the minimum wage. His production is not at a level that warrants the pay that he is receiving. There may be ways around this. This is particularly true of your youngest and most inexperienced workers; and in many instances, they don't need, perhaps, the same level of living, if they were living at home or something else, that an older person might have this has a family to support. But there are possible ways around the problem of the minimum wage. One is to have, perhaps, a special minimum wage established for younger people, for highly unskilled labor. Another might be a negative income tax, which the Urban Enterprise Zone might be an excellent place to establish that concept and test it further than it's been tested in the past.

This would involve some Government subsidy, in addition to the wages paid, but could balance off the difference between what the firm could pay and what the minimum wage would be.

The problem that he was mentioning, I just have had some personal experience with. I belong to a nonprofit organization—namely, a church—that has been interested in establishing for profit a for-profit business that is labor intensive in the central business district of the city of Atlanta. One of the things that they were looking at is a cut-and-sew operation, which would be highly labor intensive, or they

wanted it to be. The result was that, with the capital requirements and so forth, not even this particular church would venture going into that labor-intensive business and having to pay the minimum wage to those it would also have to train. It could not do this without biting into the capital that it was trying to conserve in order to hire more people at the minimum wage, which the church finally decided to move into a training program in concert—well, we haven't decided yet, but it's being discussed—move into a training program in concert with the hotel industry in Atlanta, because that industry has a major problem with turnover of low-skill workers.

Many of their problems relate to discipline in the workplace, being at work on time, et cetera. So that this is a training area in which this particular local institution could enter into; and I think this is an example of what you were discussing. It's entering into this in concert with—if they do it in concert, with the hotel industry in this city. But I think those two examples are ones that I have firsthand knowledge of, that perhaps answer your question.

Senator MATTINGLY. Let me make one comment. The reason why I brought up minimum wage and the change is because it has always been my feeling—I have always felt that, if you had it reduced, then you would encourage people to hire the unskilled. But it has to be worded. if you're ever going to do that, to where people don't feel like they're trapped, that you're not taking in people at a subminimum wage and just using them until such point as they become trained, and you dump them out and get somebody else in. I think that it has to be, if it does come about in the Enterprise Zone legislation, about changing the minimum wage level for on-the-job training, that there has to be an assurance that somebody's not going to get duped.

I would like to have Mr. Baker comment on the incentives, what it really takes in incentives, and what it really takes to motivate people. Nobody's been coming down the street talking about Enterprise Zones in Augusta, Ga., but Mayor McIntyre understands what it does take to stimulate people, and that's what he was talking about as giving the tax breaks for the people to have startup businesses in downtown Augusta. I know firsthand they've had a tough time in that area. I'll come back to Mayor McIntyre, but I would like to have Mr. Baker comment about incentives for startups.

Mr. BAKER. Senator, your comments about the use of the minimum wage and the structure of it, I agree with fully. To me, all the taxes incentives could be set aside if minimum wage could be addressed with the conditions in phase-in and phase-out kinds of qualifiers.

The key to start up businesses is to reduce the cost of operation, to preserve a positive cash flow. If you don't make money, you don't have taxes, and tax credits don't do you any good. The minimum wage, in my opinion, will be the single most important thing—the reduction of that—that could be done for start-up business in Enterprise Zones. I think that has to be linked, though, with something else; and I think David Scott will agree with me on this point, maybe not the last one; and that is that when we talk about training, I agree with you, the best kind of training is a job; but I think, from my familiarity with an organization called OIC—and I think you've been involved with that—that we're talking about training about how do you conduct

yourself at work, how do you dress for work, even some literacy skills; and I think we're dealing with an unskilled population, that you have to start, literally, there; and I don't think that's done on the job. I think there is some classroom formal training on the front end before you even get them into a position. It's that kind of training where—remedial, perhaps—I think there could be some focus from the State level. Their focus tends to be job skills: how to operate a machine; but I think you've got to go back one step. I see the linkage of two. If you can take the minimum wage and bring it down for the small entrepreneur starting, get into these basic skills, I think you can build a competency in your work force to allow them to become more skilled, more competent, and hopefully have pride in what they're doing; and they move on out into a work force that can pay them a full standard minimum wage.

Mr. LEGG. This concept was particularly important in what—the example I gave earlier. The necessity for training and work discipline and personal hygiene and literacy. The lack of use, for instance, of curse words on the job. Just little things of that nature, in particular in a service economy like Atlanta's, that is very important to the maintenance of a job in those industries such as the hotel industry. The image of the hotel, is it being represented, et cetera? And this is one of the areas they decided to look at, that the nonprofit organization decided to look at as a possibility for assisting in training.

Mr. VASH. Just to touch on that and get back to the minimum wage, very quickly: the point that Mr. Baker and also you, Senator, made about schooling and literacy is certainly very important, because in many of some depressed areas the reason for business disinvestment and the reason why certain families don't take jobs in the area may not be simply because of the tax structure or regulation structure. It may very well be they have large families and there isn't a school in the area, or if there is a school in the area, it doesn't have good services. So one possible recommendation you may want to keep in mind is, since this is an experimental program, the Enterprise Zone is not going to sweep the entire country. There are only certain pockets in the country that will be designated. Why not make an experiment with an education voucher project, where you give the families in the area a voucher to be able to go to the school of their choice; and that way they're not only having a family choice in their education, the Government isn't mandating a place for them to go; and you're providing them a very useful way to make a decision about where they get their education.

But I have to get back to minimum wage, because there were a couple of important points that were not mentioned.

Yes; I think it is true that the minimum wage has a deleterious effect on employers. I think history and economists—Tom Sowell, Walter Williams, and several other economists—have more than adequately shown that a minimum wage provides an artificial wage base upon which unions can demand salaries which are not commensurate with the jobs. I think businesses, the National Association of Manufacturers, came out with a study recently which was not disputed, by the way, by any labor organization. It showed that every incremental increase in the minimum wage for the past 10 years has caused a $25

to $32 billion increase in labor costs; and that's an important point. And the minimum wage also does not reflect the fact, as the gentleman on my right mentioned, that certain industries are labor-intensive, and the jobs that they're offering may not be worth the minimum wage. But beyond all that point, beyond your agreement or disagreement with minimum wage, there are two options: Either you're going to allow a youth differential and get rid of minimum wage for Enterprise Zones, or you're not.

If you do make the differential, three caveats should be noted. No. 1, there is an employee tax credit authorized in these Enterprise Zone bills, which means that, even though the person—it's possible the person who's taken a job in the zone may be offered a job that pays lower than the minimum wage, the fact that he does get a 15-percent nonrefundable or refundable income tax credit means that he can make up for that loss through his income tax form.

The second point is to note that, even though you repeal the minimum wage or use a differential, that fact does not prevent the unions in the area from negotiating a high salary or good solid wage base for the employees of the area. This is a free market economy. The unions in this country have the right to bargain.

And the last point I would mention that the suspension is only going to affect a very small part of the population. It's an experimental project.

Now, I would wind up by noting that if, on the other hand, we cannot repeal the minimum wage, or suspend it for the zone, we really have to pursue one or all of three options. No. 1, authorize a 50-percent wage credit that an employer can deduct from his taxes. In other words, allow the employer to deduct 50 percent of the wages he paid to a CETA-eligible worker from his income tax liability. Thereby, if he's paying a wage which is, as we noted earlier, maybe higher than the job is worth, then at least the employer can take it off on his income tax liability.

The second option is the 15-percent payroll tax credit for the payroll costs, social security, unemployment compensation, and the rest, that the employer has to pay; and that way you can offset the deleterious effect of the minimum wage on these capital operating costs.

And then the last option, of course, is to go, as I said earlier, to a job voucher system, whereby if an employer, because he has to pay the minimum wage, is having to pay someone more than he thinks he's worth, at least he has the less-skilled teenagers who may be priced out of the market because they're not skilled, at least they have the comparative advantage over their other prospective fellow employees of taking the voucher, and that way the employer doesn't have to pay the cost of the employment. It's actually subsidized by funds that have already been earmarked by the State.

Senator MATTINGLY. Did you say a 15 percent credit? Of course, we don't know what the subminimum wage would be, though.

Mr. VASH. Yeah, but if you look at all the subminimum wage bills—Senator Hatch's bill, and the bills that have been introduced to Congress to date—it's usually no lower than 75 percent of the prevailing rate. And on top of that, in all those bills, as I recall, there is a stipulation that every employee that's hired under the differential is not al-

lowed to displace a worker who's paid the prevailing wage; and if you ever find that instance, please report it to the Department of Labor, because it's illegal.

Senator MATTINGLY. Do you think there should be any floor put on that minimum wage?

Mr. VASH. I'll defer to Stuart Butler on that.

Senator MATTINGLY. Obviously, when it comes out of the administration, it's going to have a floor under it. I don't know. I'm just guessing on that, now.

Mr. SHINHOSTER. I think both these points are very important points—both consideration of subminimum wage and the training possibilities. Because in essence, I think, it's really the whole crux of what Enterprise Zones are all about, how to develop businesses; and we're talking about businesses in areas that might very well attract, well, labor-intensive type businesses, and develop working skills of people that may or may not be up to par.

I think it's important to keep in mind a couple of points. The first and primary point is: While it is important for business to maintain business and make a profit, which is the overall motivation for anyone going into business, from the standpoint of workers, people work in order to earn a living; and if we are to deal with particularly the minimum wage issue, I would have to agree with you, Senator, that the language and the wording must be very specific and very definite; and I think any attempt to adjust or develop a subminimum wage that presupposes some thought or some idea that young people, youth, persons 16 to 19, or whatever age group, don't need as much to live as persons above that age—I think that's a fallacy.

Second, I think it's a fallacy to really attempt to quantify what a particular job—well, it's not a fallacy to quantify what a particular job is worth; but I think it cannot be an arbitrary definition of what a particular job is worth; and that's why we have minimum wage laws to begin with, that seek to categorize basic operations and assign some kind of value for the service rendered in those instances. But I think if we're going to start playing with the minimum wage aspects of the thing and talking about subminimum wage, or youth minimum wage, we ought to be very careful in our overall presumptions about what the labor market is like; and while you might be able to have such structures put into place, and while Congress might be likely to put such laws into place, you then have to worry about whether or not there will be enough incentive remaining in the overall facility so that you would have employees who would, in fact, take jobs at what they might feel not to be an acceptable livable wage. I think it's a two-edged sword. You must look at the overall picture.

Senator MATTINGLY. Not to debate that too much longer, but having spent time with the IBM Corp., when they first hired me, it was sort of an on-the-job-type program; when I started my own business, I remember hiring people to try to learn the job; and later on, as they learned it, you know, we did increase their pay, which worked out very well. In fact, just as an example, we hired the people who drove our van from the college, the junior college; and we went through several people, because some of them couldn't drive the van. Those people we just replaced with other people who could learn how to drive the van.

Mayor McIntyre, you mentioned about the tax incentives that you're using in Augusta. Could you just clarify that, what you did use so we can have it for the record, please?

Mayor McIntyre. We're not using it yet. It's a concept that I advanced to the city council last week. You know, we have a lot of empty buildings on our main street; and what I've asked our staff to do is to come up with some formula that we could use; and I use the example myself of any business that comes into the community—I used a small figure—that's going to put out capital of $50,000 and employ 10 people, that we would give them a local tax credit, a tax break, for this. It's really in the embryonic stage, and we're really just in the talking stage of it, hoping that we can develop some kind of program; and this would have to go before our State, too. That's what we're looking at, to see if we can pass local legislation or a constitutional amendment in order to do this; because we get into the tax laws, and that's another thing. But it is something that we're looking at in Augusta, and we talked to our legislators about it last week, in hopes that we can do something of this nature to encourage individuals to get into it.

Senator, may I just make another observation, because I'm not an economist; but I don't see, for an example, if we reduce the minimum wage, and we increase goods and services by reducing the minimum wage, then are we really solving the problem with an increase in goods and services, with less money being earned by the employee? Are we doing anything to the economy to make it healthier?

Senator Mattingly. Well, right now, there are people that should be employed there and business are not even there. It is a nonproducer of revenues now to the business, to the city and the county, and to the State and Federal Government people are currently unemployed, whether they live in that zone or outside of that zone. You are generating revenues, because you're increasing the tax base by making people become producers once again.

I guess the bottom line of all this—and I'm just like you, Mayor McIntyre—I'm not an economist—but I know what we need, we need jobs. But I agree with you, and the testimony of everybody else that's come through here, that what we've done hasn't exactly worked, to say the least. The Enterprise Zone concept is a solid proposal that I think, with the input from people, like the testimony that you-all have given today and have continued to give testimony: Is it going to be one that's going to be able to create jobs?

Mr. Legg. On this concept of minimum wage, you mentioned a while ago that perhaps we couldn't draw people in to take the jobs if they were offering minimum wage on the outside of an Enterprise Zone and not offering minimum wage on the inside. That's—let's assume for a moment that you have no wage controls at all on the inside. That's just an assumption. Then, if they are going to draw people into the jobs, they're going to have to pay a certain level. That's just part of the marketplace.

Now, if that market wage happens to be below the minimum wage on the outside, then, obviously, someone couldn't find a job on the outside of the Enterprise Zone that would pay the minimum wage, and they are working in the Enterprise Zone at whatever wage they are willing to accept; and I think, if you take this into consideration,

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plus the fact that Enterprise Zones are going to be rather limited in the area, and rather limited in scope, I'm not so sure that we can't get around this minimum wage problem, and the problems that everyone has brought up at the table pertaining to it.

Mr. SCOTT. Senator, excuse me, please, but I'm going to have to leave.

Senator MATTINGLY. If nobody has any more comments, I would like to have Mr. Butler make a comment. I'm going to keep on promoting you.

Mr. BUTLER. I was going to make one comment. Thank you very much.

I was just going to make a point that seems to me really a reflection on some of the other comments made; and that is the idea that, within the Enterprise Zone, you have to have a very substantial differential between the tax incentives that apply there compared with other parts of the country.

Leading on from that, there is a general feeling that, somehow the Economic Recovery Tax Act is going to be detrimental to Enterprise Zones, because it reduces the differential.

I don't think this is correct. It would only be true if the idea of the Enterprise Zone was essentially to relocate businesses, to encourage people who would otherwise go somewhere else to go to inner cities. If that's the purpose of Enterprise Zones, then you do need a substantial differential; but if, on the other hand, as I believe it, the idea is to encourage people who are starting their first business to do so in a depressed neighborhood in which they live, then the Economic Recovery Tax Act is an added incentive for them to do that.

So I would just make that general comment, that I don't think that cutting taxes nationally is detrimental to what goes on in an Enterprise Zone. It should add to it, not detract from it.

Senator MATTINGLY. Well, I can tell you this: I'm a wholehearted advocate of the Enterprise Zone. I think, if we're looking for something to encourage business and create jobs in this country, that the only thing I see bad about it is that it's not already instigated into law and passed; and, in fact, that we don't have the city, the county, and the State governments just running hand-in-hand to aid, not retard businesses.

Now, I'd like to thank every one of you who participated in the hearing today——

Mr. WHITE. Can I——

Senator MATTINGLY. Yes. Milton White.

Mr. WHITE. Senator Mattingly, and those who participated here, I did not participate, but I think it's fitting, at such an occasion like this, that Senator Mattingly and Congressman Newt Gingrich and the panelists who gave of their time to come, and that you held it here in Atlanta, I think it's fitting—I was a delegate to the White House Conference on Small Businesses a few years ago; and at that conference we heard of the Enterprise Zone; and what I heard there was that they were concerned primarily about targeting cities and in the East and Midwest; and I'm so happy to know that our Senator and our Congressman will be able to come to Georgia and see that we need Enterprise Zones in this area of the country, other than the area that I heard at the White House Conference.

I think that Enterprise Zone is something that is needed; and I'm following what you just said, it's something that should have been years ago, because there are areas in this country that have decayed to the point that it's hard to bring it back around. With these incentives that they're talking about, whatever it might be, something good is going to come out of it; however it comes and in whatever form it's going to come, it's going to be beneficial to the community, wherever they are; and I'm hoping that you will see fit that Georgia will be an area where Enterprise Zones will come.

I hate to be talking like this for Georgia, but it's in my system; and I want to say something about small businesses. Minority businesses is another area altogether. We talk about small businesses. When I went there and they talked about small businesses, my business—and I'm talking from experience. I'm in a small business. My business was outside of that realm altogether; and all minority businesses are outside the realm of small businesses. It's another title we've got to get for us; and we need more incentives than what Enterprise Zones are going to give to make us work. We're concerned about profit; we're concerned about the bottom line; and whatever it takes to make it work, this will help do it; and I commend you; and we ought to commend all of us here, sitting around in the arena, here, those people that have come to give of your time to add to, Senator, when you go back, to help put it into the Enterprise Zone, to help make it work.

Senator MATTINGLY. Thank you.

Thank you all very much for coming.

I would like to thank everyone who has participated today. I feel this has been a very fruitful discussion of the Urban Enterprise Zone concept, and I look forward to sharing this valuable information with my colleagues in the Congress as we work toward eliminating the problems confronting the inner cities of our Nation. Recognizing the disappointing performance of public programs in the past, I look forward to consideration by the Congress of the Urban Enterprise Zone concept, the goal of which is revitalization of the inner cities of our Nation and the creation of jobs.

The hearing is adjourned.

[Whereupon, at 1:40 p.m., the subcommittee adjourned, subject to the call of the Chair.]

[The following information was subsequently supplied for the record:]

STATEMENT OF MARSHA A. LAWTHER, PROGRAM SPECIALIST, SOUTHERN ALLEGHENIES REGIONAL COMMISSION, ALTOONA, PA.

PREFACE

Analysis of the Region as Candidate for Enterprise Zone Designation

Southern Alleghenies is a six-county consortium of the counties of Bedford, Blair, Cambria, Fulton, Huntingdon and Somerset in rural Pennsylvania. These six counties, encompassing 4,600 square miles and 503,000 persons, share the common problems of high unemployment and an economy originally structured on resource-based industries including coal mining, agriculture, steel manufacturing and the railroad industry. Currently, unemployment ranges from a low of 11.3 percent in Fulton County, to a high of 15.3 percent in Huntingdon, with a district rate of 12.5 percent. In addition to high unemployment levels, the region is faced with high outmigration rates and incomes below the national average.

The region represents a blend of three rural counties (Bedford, Fulton and Huntingdon) with two SMSA's, those of Altoona (Blair County) and Johnstown (Cambria and Somerset Counties). Altoona's economy is closely tied to the railroad industry, with ConRail employing over 2,600 employees. Johnstown's economy, severely affected by the Flood of 1977, still is closely tied to the steel industry with U.S. Steel and Bethlehem Steel combined employing over 7,000 employees. Neither the steel nor the rail industry of this area is expanding. Bethlehem Steel in Johnstown, which employed 18,000 in 1957, currently employing 5,500 and this is projected to be reduced to a level of 4,800 employees. ConRail in Altoona went from a high of 4,200 in 1977, to a current low of 2,600 employees.

The only possible strategy available to promote the revitalization of this area is encouragement of new business to locate in the area or the encouragement of existing business to expand.

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Due to the introduction of legislation proposing the formation of enterprise zones, the Southern Alleghenies Commission has begun to endeavor to identify what interest or perceptions private industry leaders have toward proposed federal incentives and the enterprise zone concept in general. The following information will document the results of a survey of private businessmen from various sized organizations in our area. In addition, views from the Small Business Development Center are also recounted in order to identify what effects proposed enterprise zone legislation would have upon potential entrepreneurs.

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OVERVIEW OF ENTERPRISE ZONE CONCEPT

The majority of employers interviewed in our six-county area strongly endorse the enterprise zone concept as a positive concept which could encourage existing businesses to expand. Most employers agreed that a mix of federal, state and local incentives was necessary to properly provide a sufficient incentive for businesses to expand or embark upon ventures which would involve a degree of risk. A small number of employers surveyed were concerned with the possibility of new businesses providing unfair competition in light of certain zone incentives. All employers surveyed were most interested in state incentives which would provide financial relief in the areas of unemployment compensation and workmen's compensation.

The Small Business Development Center of our region believes that through discussions with the majority of their contacts, most potential entrepreneurs are encouraged at the prospects of proposed enterprise zone legislation. Although the majority of the incentives in proposed enterprise zone legislation could encourage a potential entrepreneur to start a new business, the Small Business Development Center claims that the majority of its clients are most interested in a wider variety of sources of venture capital.

PRIVATE INDUSTRY REACTIONS TO SPECIFIC PROPOSED FEDERAL INCENTIVES

In the survey conducted with private employers, we documented the following reactions to proposed federal incentives.

1. Tax Credits for Employers

Area businessmen were most impressed by the proposed fifty percent exclusion of taxable income for businesses doing business in enterprise zones. In addition, most employers looked favorably upon the TJTC program outlined in the Heinz/Riegel legislation and advocated its continuation and the expansion of benefits to be given to employers who utilize TJTC in zone areas. Most businessmen felt, however, the tax credits for employers would be most useful to medium to large sized businesses and would encourage their expansion. In addition, tax credits (other than TJTC) would be less helpful to prospective entrepreneurs who are most concerned with start-up capital.

2. Tax Breaks on Loans to Zone Businesses

This federal incentive proposed in both the Kemp-Garcia and the Rangel Legislation, was the second most popular federal incentive among businessmen in our area. It was generally agreed decreasing the amount of taxable income earned by banks through loans to zone businessmen would encourage more lending institutions to lend money to zone businesses. This incentive could be very amenable to both established businesses hoping to expand and the potential entrepreneurs trying to start a small business.

3. Loss Carry Forwards

Proposed Kemp-Garcia Legislation allows zone businesses to utilize a loss carry forward up to 20 years. Although this incentive is not particularly useful to small entrepreneur starting a business, many of our local

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businessmen believed this incentive would be valuable for the successful established business, in that it would encourage such a business to embark upon business expansion activity which involved a greater degree of risk.

4. Permission to use Cash Accounting in the Zones

For this incentive, many of the area's private businessmen believed that Kemp-Garica's limitation to businesses with gross receipts less than $2,000,000 per annum was too restrictive. Most businessmen felt that this incentive was only useful as stated in the Heinz-Riegel Legislation's limitless use of cash accounting for all zone businesses.

5. Employee Incentives

Most of the employers in our area reacted negatively toward proposals in both the Kemp-Garcia and the Heniz-Riegle Legislation which offer tax credits for employees who work for qualified zone businesses. Many of the employers were hesitant to endorse this concept in light of the fact that this incentive could encourage employees to jump from one company to another in light of this proposed incentive.

6. Capital Gains Tax, Investment Tax Credit, and Accelerated Depreciation

All of the previously stated incentives were outlined as incentives to be offered in enterprise zone legislation. Since the Administration's tax package has already provided universally adopted incentives in these areas, the only recommendation which was made by the private employers of was to increase or broaden the above-listed incentives beyond the Administration's new tax law, specifically for businesses who locate or expand in enterprise zones. By doing this, businesses could perceive one more advantage for expanding or locating in a zone area.

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ADDITIONAL FEDERAL INCENTIVES WHICH EMPLOYERS OF OUR AREA BELIEVE SHOULD BE OFFERED TO QUALIFIED ZONE BUSINESSES

Area businessmen surveyed, in conjunction with representatives from the Small Business Development Center, believed that some additional incentives not proposed in any of the pending enterprise zone legislations were necessary for its success.

1. Training for Qualified Businesses to be provided through the Comprehensive Employment and Training Act

   Several private businessmen emphasized the exhorbitant cost of training new employees when starting up a small business. Thus, many employers suggested that qualified zone businesses should be given a priority for aid in training under Classroom Training and On-the-Job Training under the Comprehensive Employment and Training Act. Since this money is immediately available, it is more of an incentive for small businesses than TJTC or other tax incentive programs.

2. Facilitation in the Processing of Low-Interest Loans for Qualified Zone Businesses

   Many of the employers of our area believed any program which the federal government wishes to initiate to encourage business creation and expansion must include some provision for the granting of low-interest loans and venture capital. One additional federal incentive, thus, should include the facilitation of current low-interest loan programs to prospective zone businesses. This would not only encourage existing businesses to expand, but would better facilitate the creation of new small businesses through more readily available capital.

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SUMMARY

In conclusion, the area businesses interviewed in the survey strongly endorse the enterprise zone concept with only limited reservations. Since proposed enterprise zone legislation is to be pursued on a demonstration basis, the businessmen of our area believe that rural areas who qualify under proposed eligibility standards should be considered for at least a percentage of the demonstration sites. An organization such as Southern Alleghenies Commission, due to its demonstrated effectiveness in administering other federal programs throughout a six-county region, was recommended by the private employers of our area as the most appropriate agency to administer a potential zone.

In addition, since the Commission has previously administered other federal and state programs which encourage economic development, private businessmen and representatives of the Small Business Development Center encourage the linkage of existing tools that encourage economic development to the enterprise zone concept. Programs which provide low-interest loans are most useful to potential entrepreneurs in the encouragement of potential new business formation.

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Statement of

Paul L. Pryde
President
Janus Associates

at

Field Hearing on
Enterprise Zones

Before the

Joint Economic Committee

Richard B. Russell Federal Building
Atlanta, Georgia

January 11, 1982

Good morning.

My name is Paul Pryde. I am president of Janus Associates, a development banking and consulting firm located in Washington, D.C. Because of our firm's work with growing new firms and with communities looking for ways to expand jobs and economic activity, we have taken an active interest in the creative use of tax incentives to overcome barriers to local economic development.

I am happy to have this opportunity to present to your suggestions for making the enterprise zone concept a workable reality.

As you may be aware, the Administration recently approved, in principle, an enterprise zones plan, though it has not yet settled on what specific tax incentives it will propose.

Like many others, I realize that the use of federal business tax reductions cannot be expected to overcome all the barriers to increased employment and economic activity which exist in poor communities in a country as diverse as ours. We know, for example, that federal tax relief can play only a limited role in overcoming the public infrastructure problems which now threaten the ability of many localities to support increased private investment. Nevertheless, I am equally convinced that well designed tax incentives can be useful in overcoming some of the development barriers faced by distressed inner city areas.

Before suggesting specific incentives, however, I want to say a word about what enterprise zones should, and should not, be designed to do. Two points need to be made.

The first, and most critical, is that zones should not be designed principally to shift economic activity from one place to another. Some amount of business relocation may be necessary to overcome past biases in public policy, but in the final analysis, the revitalization of America's distressed inner cities will largely depend upon their becoming, once again, centers of entrepreneurial activity -- places where the firms of the future are formed and incubated. One need not look terribly far for evidence to support this proposition. Almost all economists who have examined the process of economic growth and development agree that new, young firms are this nation's greatest source of new jobs. The evidence we have also makes clear that forming a new firm is an important means by which individuals adjust to hard times. It should not be surprising therefore to find that a recent issue of the Wall Street Journal reports an 11% rise in business formation rates despite record high interest rates. The importance of entrepreneurship, however, is not limited to commerce, industry and trade. In almost any community there are individuals and groups of individuals who have successfully taken new and risky approaches to complex problems or new opportunities. In this sense, people like Sister Falaka Fattah of the House of Umoja in Philadelphia, whose work with gangs has reduced both crime and unemployment among youth in her neighborhood, is just as much an entrepreneur as the engineer who starts a new high technology business.

The second point is that expansion of the enterprise zone

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concept must ultimately be measured by the number of jobs it creates for people who need them. This nation's people are its most important resource, and an enterprise zone program worthy of support must achieve demonstrable results in the hiring and training of its unemployed and underemployed people.

I believe that the following tax measures will be effective in promoting two types of investment which are essential to making enterprise zones work -- investments in new entrepreneurial activity and investments in the hiring and training of potentially productive workers.

1. Capital Incentives

Much of the research on local and regional development suggests the scarcity of risk and equity capital is a major barrier to the formation of the new, young businesses which create most jobs. Similar studies make it clear that, contrary to popular mythology, the funds for such firms do not come mainly from venture capital firms or government loan programs. Rather, the new or expanding business gets most of its initial capital from the founder's personal savings, as well as from investments by friends, family members and business associates.

The tax incentives proposed below are designed to encourage individuals acting either independently, or through intermediaries, to risk their savings in new and expanding companies in distressed areas.

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- Allow investments -- in the form of common stock or unsecured term loans -- in firms in enterprise zones to be written off by investors in the year in which the investment is made

This incentive would substantially increase after-tax rates of return realized on equity and near-equity investments in young, small firms and should therefore increase the number of such investments made. In addition, I believe that this proposed incentive would result in little revenue loss to the Treasury, since the investments encouraged would compete with less productive tax shelters elsewhere in the economy rather than against taxable investments.

- Allow capital gains taxes on such investments to be deferred for as long as the proceeds are re-invested in similar firms

I suggest that taxpayers be allowed to defer taxes on the gains on successful investments as long as the proceeds are reinvested in other qualified companies. What I am proposing is analogous to allowing homeowners to defer capital gains taxes on the sale of their homes as long as they reinvest the proceeds in housing of approximately equal value.

- Target industrial development bonds to firms and projects in enterprise zones

There is a growing desire in the Administration and in the Congress to reduce revenue losses attributable to so-called "abuses" in the use of industrial development bonds, in particular the issuance of tax-exempt obligations by large, profitable companies which have easy access to the nation's capital markets. Rather than eliminate such bonds entirely,

as some have proposed, I suggest that they be targeted more carefully towards smaller firms located in distressed areas.

2. Employment Incentives

- Provide employers in enterprise zones (a) 10% credit for all new employees hired and (b) a 50% tax credit against wages paid to employees from special targeted groups during their first three years of employment

Since most employment training occurs on the job rather than in classrooms, I believe it essential to encourage employers to hire and train unemployed residents of distressed areas. The credits I have proposed would reward all new job creation and would provide an even more substantial subsidy to employers who hire and train disadvantaged workers. To make the credits most useful to employers I also recommend that payroll deductions not be reduced by the amount of the credit. Finally, I recognize that young firms, in particular, may not be able to use all of the credits to which they are entitled. I therefore suggest that within these distressed areas there be permitted a free market in which companies would be allowed to sell and trade their unused credits.

3. Other Incentives

- Remove the requirement that state neighborhood tax credits be treated as income for federal tax purposes

Even the most well-designed tax incentives will not automatically overcome all of the barriers to increased economic activity within distressed areas. For example, no set of tax

inducements of which I can now think will directly reduce youth crime or vandalism. Nor does experience suggest that those community organizations which, for example, have dealt successfully with youth crime can make a profit doing so. What tax incentives can do, however, is to encourage corporations to support the activities of groups which make important contributions to the alleviation of development barriers which tax incentives cannot directly address.

Several states are encouraging such grants by giving tax credits for corporate contributions to qualifying neighborhood development activities. Unfortunately, these credits are taxed at the federal level, thus decreasing their value to corporations and providing the federal government with an unseemly windfall. By eliminating this inequity, my proposal should bring the federal government into fuller partnership with the states and encourage greater giving on the part of corporations.

While I believe that our proposal would also encourage the adoption of neighborhood tax credit programs by more states, it is also desirable to encourage corporate grants to desirable development activities in states with no income tax. I therefore suggest a federal credit of 25% of any contributions made by corporations to qualifying local development activities.

- Permit the liberalized leasing rules established under the Economic Recovery Tax Act of 1981 to be applied to all property within enterprise zones

The recently enacted Economic Recovery Tax Act creates new leasing rules which allow companies to buy and sell tax credits and deductions. Unfortunately, the new rules apply only to certain types of equipment and exclude individuals and closely held companies as lessors (buyers). Extending the new leasing provisions to all property and to all firms and individuals within enterprise zones should greatly increase the financing options available to projects and businesses there.

Having offered my ideas on tax incentives, let me now offer three admonitions to the prospective architects of enterprise zones.

FIRST, do not think that enterprise zones will work automatically. As ventures in their own right, they must be planned, marketed and managed by competent organizations with a stake in their success. If they are not, they will fail.

SECOND, do not try to regulate the program to success. No public effort designed to stimulate development in distressed areas can be entirely risk-free. Complex regulations designed to prevent failure and fraud will often cost more in lost and misguided creativity than they will buy in abuse prevention. Make the rules simple and fair, and enforce them rigorously.

THIRD and last, do not worry about state and local tax reductions. Despite increased interest in tax measures to spur development, there is substantial evidence that reductions in state and local taxes are less important to development than

reductions in federal taxes. One reason is that state and local tax rates are generally lower than federal rates. Concentrate on state and local regulations instead. They are much more important barriers to development than taxes.

In closing, let me say that it appears that enterprise zones are an idea whose time has come. I hope the suggestions I have offered will make that idea a good one.

Thank you.

IMPROVING THE EFFECTIVENESS OF ENTERPRISE ZONES

Testimony of Mari E. Fitz, Policy Analyst
Sabre Foundation
Washington, D.C.

Subcommittee on Economic Goals and Intergovernmental Policy
January 11, 1982

American cities are in critical condition. Between 1960 and 1970, population figures, employment figures, and small business investment figures have dropped drastically. Parcels of abandoned land and gutted, dilapidated buildings stretch out block after city block . High crime rates have become the norm in areas thatwere once highly desirable as places of residence, employment, and investment.

During the past decade, municipalities have experienced greater limitations in being able to provide direct financial assistance for the restoration and maintenance of decaying infrastructure, produce lasting solutions to the prevalence of crime, or implement a means for providing adequate and regular service delivery to inner city neighborhooods. These limitations have become major problems which continually afflict the efforts of local governments to revitalize urban areas.

To date, a number of economic development, and planning strategies have been utilized to combat these ever-increasing urban dilemmas. Yet our cities are in need of additional strategies to revive business production, and neighborhood strength. It is time now to carefully analyze every available initiative to help reduce the rapid decline and decay of our urban areas. We must apply innovative economic measures to give new impetus to the economic base, to encourage investment, and to promote location by firms into these highly depressed areas. In short, action needs to be taken to promote an urban environment which is conducive to business creation and expansion.

After months of intensive preparation, the Enterprise Zone approach offers cities a chance to create a climate of business opportunity. This concept differs from the programmatic approaches which now exist to stimulate revival in urban areas. Where unemployment, poverty, business turnover, and crime exist at high levels, this concept would help cities to abate such problems. Although cities are experiencing the aforementioned problems, the Enterprise Zone concept can be utilized as a very effective tool for economic development, and job creation, by increasing the rate of business formation, attracting new entrepreneurs, encouraging the expansion of existing small firms in distressed areas, and reducing the obstacles to business investment.

If successfully operated, the Enterprise Zone over a period of time can also produce such needed results as; reduction in crime, suitable development and maintenance of infrastructure, improved delivery of services and much more. While the Enterprise Zone concept cannot be regarded as the ultimate economic development remedy, it does offer vital measures for development efforts which will work harmoniously with the tools which now govern inner city

revitalization. Municipalities will be able to determine, structure, and guide development that best addresses the economic need of the city and it's residents.

Potential Deterrents to Investment

One major problem hindering past efforts to revitalize urban areas has been the inability of municipalities to offer lasting solutions to high incidence of crime, poor, and undependable service delivery, and poorly maintained and decaying infrastructure. Most businesses are reluctant to locate in these areas where such impediments remain strong. The current tax relief and regulatory relief provided for businesses is likely to prove insufficient in terms of offsetting the major deterrents for employers and employees in distressed urban areas. According to most surveys and studies, low levels of crime, and dependable service provision rank highest among concerns, indeed the environment of the work place is a top priority in business decisions to locate or remain in an area.

Another major hindrance to potential investors is the poor condition of the infrastructure within these areas. These are the issues to which potential investors are most attentive, rather than ordinary financial incentives. Fiscal strains on the city budget today result in diminished municipal capacity to meet service demands of business in these distressed urban areas.

Potential Displacement of Residents

In order to effectively gain the support of potential Zone residents, consideration must be given to the possibility of displacement. Under existing proposals, residents of Enterprise Zones may become victims of displacement. As neighborhood conditions improve in succesful Enterprise Zones, existing residents may find themselves forced to move out. Gentrification of inner cities caused rents to double or triple within a short period of time. This may lead to skepticism and refusal of residents to cooperate with government initiated Enterprise Zone plans and proposed.

The Sabre Foundation suggests an approach which allows for the establishment of forms of equity in Zone properties for Enterprise Associations, comprised of Zone residents. Title to idle government properties could be transferred to contractual Enterprise Associations. Establishing equity within a Zone would in fact function as a possible safeguard for residents against gentrification. Substantial revenue from yearly rentals to businesses can be realized once the deeded properties have been developed, restored and made attractive to other businesses as investment possibilities. Lease revenue would be shared by the Zone Association with active association members. The income from leased Association properties, coupled with newly created jobs, would help Zone residents to remain in a successful Zone, thereby offering protection against displacement. We urge that existing residents be given equity in Zone properties, in return for their participation in neighborhood associations.

Revenue Loss and Limited Public Funds

The problem of revenue loss can develop as a result of the tax relief offered to businesses in an Enterprise Zone. With Federal Budget cuts taking effect nationwide, many cities already face enormous fiscal strain. By offering increased tax relief to firms, cities risk incurring substantial revenue losses, whereby the fiscal liberities of the past will no longer be available.

Services to inner city neighborhoods are often more expensive than the municipal budget can support, and therefore shortcuts on improvements and maintenance are often the result, leaving business owners, and homeowners in many areas frustrated and angry. To offset such problems that might be caused by reductions in taxes, Sabre urges that the windfall appreciation in land values in successful Enterprise Zones be dedicated to community purposes which would help to reduce the demands upon the public purse; thus creating incentives for new community and private action, rather than relying on traditional programs. This innovative approach offers hope for improving basic inner city problems with crime, services, and infrastructure.

Sabre proposes that by acquiring the support of Zone residents thru the establishment of Enterprise Zone Associations, improvement efforts can more readily be achieved, such as; 1) encouraging residents to participate in cooperative anticrime watches, block patrols, purchasing special streetlights to deter muggers, refurbishing neighborhood public facilities, and purchasing recreational items for neighborhood youth; 2) arranging and contracting for responsive and economical nongovernmental service delivery, garbage disposal, streetcleaning, and snowblowing services; 3) strengthing self-help organizations, job training opportunities, day care, and food services, tutoring, and other educational programs.

Neighborhood and community associations across America have shown their capability to inspire and involve local residents in block improvement projects. Private services providers have helped to ease a great portion of the fiscal burden for such efforts from the local governments. The record of well organized neighborhood associations has proven that residents enjoy and are responsive to improvement efforts when given the opportunity to participate in projects which will directly affect them. When properly administered, the Enterprise Zone can effectively gain the support of Zone residents, and neighborhood groups which may have heretofore become apathetic to economic and community programs of the local government.

The approaches reprsent a few of the major Sabre Foundation proposals for Enterprise Zone planning, and are highly recommended to the Subcommittee on Economic Goals and Intergovernmental Policy for consideration .

TESTIMONY OF JAMES L. KENDRICK, AUGUSTA, GA.

Good morning ladies and gentlemen. I am grateful for the opportunity to offer my thoughts on the proposed Enterprise Zone Legislation. I want to express my appreciation to Senator Mattingly and his staff for their interest and desire for input from those of us concerned about the inner-city.

Being a Black American provide me with a special perspective on these inner-city problems. My work in community affairs (Business League, Opportunities Industrialization Center, Jaycees) and being a small business owner has provided additional opportunities for me to formulate some very definite opinions about our cities and how to improve them. I can only sing praise to any effort designed to draw attention and resources toward this problem. However I think we must accept the complicated realities we find in the inner-cities. We are dealing with a high level of unemployment, lack of skills, lack of education among the work force and not enough quality jobs for all of those who are willing and able to work. Our challenge in this regard is two-fold.

1. How to attract new jobs to inner-city communities.
2. How to keep those that we have while assuring equal employment opportunity to all segment of our work force.

It is my opinion that tax incentives alone which are the heart of the enterprise zone bill, will not do enough to attract new jobs to the inner-city areas or to limit the outflow of jobs from distressed to non-distressed communities.

To improve the general quality of life and make a more attractive environment into which plants, people, customers, and service people can feel comfortable in, much more must be invested into these areas. More municipal service, better police protection, better schools, better lighting, better recreation, and better housing is a problem that must be dealt with, by city, state or federal government.

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A resource available is the minority business person. In both the private and public sector there are programs designed to enhance minority business enterprise development and this provides a unique opportunity for large corporations to develop joint ventures in real estate development, construction, ownership and management of significant manufacturing entities in these zones. Of course while we look to large employers to make employment gains in the targeted areas, we must not overlook needs and rights of those businesses that have struggled and survived in the neighborhoods in question. These small businesses should and can be protected.

Training is paramount to many employers. A community based organization such as Opportunities Industrialization Centers can provide this training with their experience with the unemployed and underemployed. It would be just a simple matter to gear up to the employers needs.

I wholeheartediy endorse this concept, but there are a few questions that I have that I would like to bring to your attention.

1. What type of business should qualify?
2. How long should a business have this special consideration, 5, 10, 15 years or forever?
3. What percentage should a business be required to hire from within the zone?
4. Who will monitor this effort, Federal, State or Local Government?

These are some of the questions that I do not have answers for, but I feel strongly that should be addressed.

I hope my appearance here today will aid you in making a good and just decision that will ultimately get people of the community off the welfare roll and on a payroll.

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